

# Federalizing Trade Secrets Law in an Information Economy

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*This Article addresses the need for a federal trade secrets law. Trade secrets law, once considered a secondary source of intellectual property protection for less significant innovations, has evolved into an important incentive for innovation in the information age. Given its new prominence, as well as the increasing connection between trade secrets and interstate and foreign commerce, the lack of uniformity in the state law that was once acceptable is now problematic. The lack of uniformity seriously impacts interstate commerce and raises extraordinary choice of law problems. Additionally, to the extent that some of the states' laws may fail to meet the minimum standards for trade secret protection that were established in major international trade agreements to which the United States is a party, a federal trade secrets law may actually be necessary to bring the United States into compliance.*

*This Article contends that a federal trade secrets law will find constitutional support in Congress's commerce power and, perhaps, the foreign affairs power. Although enacting such a law may be politically sensitive in the era of "new federalism," this Article concludes that the economic circumstances existing today justify such an action as a matter of policy.*

## I. INTRODUCTION

In the last decade or so, information-based technologies, including computers and telecommunications, have so transformed American businesses that the nineties are said to be the information age.<sup>1</sup> With the evolution of the economy, trade

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<sup>1</sup> See, e.g., Stan Davis & Jim Botkin, *The Coming of Knowledge-Based Business*, HARV. BUS. REV., Sept.-Oct. 1994, at 165, 167 (asserting that we are "on the cusp" of a knowledge-based economy—"knowledge meaning the application and productive use of information"); Michael J. Mandel, *Commentary: Uncle Sam Should Count Software, Not Buggy Whips*, BUS. WK., Dec. 16, 1996, at 32 (asserting that the government's statistical system for reporting on the economy was not designed for an information era and therefore misses vital contributions from "software to financial services to communications" from companies such as "Microsoft, Fidelity and MCI"); Michael J. Mandel, *The Digital Juggernaut*, BUS. WK., June 6, 1994 (THE INFORMATION REVOLUTION), at 22 [hereinafter Mandel, *Digital Juggernaut*] (discussing the "information economy" of the 1990s).

secrets, long a part of the larger legal regime protecting intellectual property, play a more pivotal role. However, they continue to be the only form of intellectual property not subject to federal legislation.<sup>2</sup> Intellectual property laws generally seek to stimulate economic growth by striking a delicate balance between providing appropriate incentives for innovation on the one hand<sup>3</sup> and promoting competition and keeping information in the public domain freely accessible to all on the other.<sup>4</sup> The system was historically rooted in federal patent and copyright protection, with trade secrets law providing a safety net primarily for “lesser and different” inventions that are unpatentable yet deserving of protection.<sup>5</sup> Today, however, much of the proprietary information and cutting edge intellectual creations that drive the economy fall outside of the dominant patent and copyright paradigms,<sup>6</sup> or, at the very least, the scope of protection extended under the

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<sup>2</sup> The other forms of intellectual property, all subject to federal law, are patents, copyrights, and trademarks. See 35 U.S.C. §§ 101–376 (1994 & Supp. II 1996) (patent law); 17 U.S.C. §§ 101–1101 (1994 & Supp. III 1997) (Copyright Act); 15 U.S.C. §§ 1051–1127 (1994 & Supp. III 1997) (trademark law).

<sup>3</sup> See *Rockwell Graphics Sys. v. DEV Indus.*, 925 F.2d 174, 180 (7th Cir. 1991) (“The future of the nation depends in no small part on the efficiency of industry, and the efficiency of the industry depends in no small part on the protection of intellectual property.”); RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 38–45 (4th ed. 1992) [hereinafter POSNER, *ECONOMIC ANALYSIS*] (discussing the economics of intellectual property); Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. LEGAL STUD. 247 (1994) (analyzing how patent law encourages innovation).

<sup>4</sup> See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (observing that there is an important public interest in allowing full and free use of all ideas in the public domain); POSNER, *ECONOMIC ANALYSIS*, *supra* note 3, at 41 (noting that “the scope [including duration] of intellectual property rights represents the striking of a balance between the interests of the creators and of the users of intellectual property”); Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutionary Impulse*, 78 VA. L. REV. 149, 157–63 (1992) (cautioning against an expansive “reap only what you have sown” approach to intellectual property because the need to provide incentives for innovation must be balanced against the countervailing policy of encouraging “dissemination and use of creations”).

<sup>5</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974) (stating that “trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation”); Rochelle C. Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 696 (1986) (noting that trade secret law allows innovators of “subpatentable inventions” . . . that fall below the congressional standard for patentability to recoup their costs”). But see J.H. Reichman, *Legal Hybrids Between the Patent and Copyright Paradigms*, 94 COLUM. L. REV. 2432, 2432–38 (1994) (acknowledging that patent and copyright laws play a historic role in protecting intellectual property rights but arguing that legal theorists have underestimated the significance of trade secrets law in the intellectual property scheme).

<sup>6</sup> See 1 MELVIN F. JAGER, *TRADE SECRETS LAW* § 1.01, at 1-1 (1985) (observing that

traditional framework is uncertain.<sup>7</sup> The inability of patent and copyright laws to accommodate abstract information and new forms of innovation is causing businesses to turn increasingly to trade secrets law for protection.

Trade secrecy, alone among all forms of intellectual property, is not subject to federal legislation. Therefore, its regulation by the states varies from jurisdiction to jurisdiction. Some states, for example, continue to be guided by the common law principles set forth in the *Restatement (First) of Torts*,<sup>8</sup> while others have adopted one of two versions of the *Uniform Trade Secrets Act*<sup>9</sup> with various modifications.<sup>10</sup> Although state differences may be the norm under federalism, they are less acceptable when interstate commerce is substantially affected, as in the case of trade secrets. Also, given American businesses' growing reliance on trade secrecy as a source of intellectual property protection, the same considerations that prompted Congress to implement a national policy toward patents and copyrights—ensuring a proper balance between protection of an innovator's rights and preserving things and ideas in the public domain in order to foster innovation—should logically extend to trade secrets. Indeed, in apparent recognition of the increasing significance of trade secrecy, its interstate and international nature and implications, and the need for at least a limited coherent national policy on the subject matter,<sup>11</sup> Congress

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technology has outstripped the traditional intellectual property laws—patents and copyrights). See generally Reichman, *supra* note 5 (arguing that new forms of innovation are not adaptable to the traditional patent and copyright paradigms and that a "menu of options" for protection should be developed instead); Pamela Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308 (1994) (analyzing why patent and copyright laws are inappropriate for protecting computer software programs).

<sup>7</sup> See *infra* notes 43–82 and accompanying text.

<sup>8</sup> § 757 (1939). Coverage of trade secrets was eliminated in the *Restatement (Second) of Torts*. Instead, the subject was added to the *Restatement (Third) of Unfair Competition*, §§ 38–45 (1995). The new Restatement provisions are essentially consistent with the Uniform Trade Secrets Act, and, therefore, will not be separately analyzed in this Article. It is unclear whether any of the states that follow section 757 of the *Restatement (First) of Torts* will eventually adopt the new Restatement rules. One commentator has observed that courts have ignored the new Restatement and continue to rely on the original Restatement for defining or interpreting the tort of trade secret misappropriation. See Rebel J. Pace, *The Case for A Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 430 n.12 (1995); see also *Merckle GmbH v. Johnson & Johnson*, 961 F. Supp. 721, 730 & n.11 (D.N.J. 1997) (continuing to rely on the definition of trade secrets found in the *Restatement (First) of Torts* although observing that the new Restatement is "relevant, if not instructive").

<sup>9</sup> 14 U.L.A. 433 (1985) (including both the original version of the Act and the 1985 amendments; additions to the original Act are indicated by underlines and deletions are denoted by strikeouts).

<sup>10</sup> See *infra* Part III.A.4.

<sup>11</sup> See S. REP. NO. 104-359, at 11–12, 104th Cong. (1996) (report on the Economic Espionage Act of 1996, Pub. L. No. 104-294, 110 Stat. 3488 (1996)).

recently enacted the Economic Espionage Act of 1996 (EEA),<sup>12</sup> which criminalizes the theft of trade secrets.<sup>13</sup> The factors that justified the passage of the EEA should likewise support a federal civil trade secrets law.

The lack of uniformity in state trade secrets law also raises vexing choice of law problems.<sup>14</sup> To be sure, that fact alone does not justify federalizing trade secrets law, since conflicts issues inevitably arise in any suit with multistate involvement.<sup>15</sup> However, some features of the modern trade secret misappropriation cause of action, generally not found in other torts, compound the normal complexities inherent in any choice of law determination.<sup>16</sup> For example, the ease with which information can now be misappropriated by electronic means from remote locations (and transmitted to numerous other locations for use) often makes it extremely difficult to ascertain where the alleged improper conduct took place or where the injury occurred—issues that are critical in deciding which state's substantive law should apply.<sup>17</sup>

In addition to these domestic considerations, binding obligations under two well-publicized international trade agreements, to which the United States is a party, make the case for a federal trade secrets law more compelling.<sup>18</sup> The North American Free Trade Agreement (NAFTA)<sup>19</sup> and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS),<sup>20</sup> which arose out of the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade

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<sup>12</sup> Pub. L. No. 104-359, 110 Stat. 3488 (1996) (codified at 18 U.S.C. §§ 1831–1839 (1994 & Supp. III 1997)). Although concern about foreign theft of American trade secrets precipitated passage of the Act, the EEA also applies to domestic trade secret misappropriation. *See id.* § 1832.

<sup>13</sup> Although the EEA allows the Attorney General to bring civil proceedings to enjoin violations of the Act, it does not authorize private rights of action. *See id.* §§ 1831–1839.

<sup>14</sup> *See infra* Part III.C.

<sup>15</sup> *See, e.g.,* *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1937); *Babcock v. Jackson*, 191 N.E.2d 279 (N.Y. 1963).

<sup>16</sup> If a former employee uses remote access in Alabama to retrieve information from the computer network system of the North Carolina office of X Co., and the information was originally generated in X Co.'s headquarters in California, determining whether to apply the law of Alabama, North Carolina, or California may be difficult. The problem would be further complicated if the former employee also e-mails the information to X Co.'s competitor in Washington, who then uses the information in its multi-state operations.

<sup>17</sup> *See infra* notes 225–29 and accompanying text.

<sup>18</sup> *See infra* notes 234–58 and accompanying text.

<sup>19</sup> North American Free Trade Agreement, Dec. 17, 1992, U.S.-Can.-Mex., 32 I.L.M. 605 [hereinafter NAFTA].

<sup>20</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex IC, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31; 33 I.L.M. 81 (1994) [hereinafter TRIPS Agreement].

(GATT),<sup>21</sup> were the first international agreements to deal with trade secrets,<sup>22</sup> and both set minimum standards for trade secret protection for the signatory nations.<sup>23</sup> To the extent that the trade secrets law of some states fail to meet these established standards, the enactment of a federal law may be necessary to bring the United States into compliance.

Prior to recent Supreme Court decisions, such as *United States v. Lopez*,<sup>24</sup> that limited the powers of Congress, congressional authority to enact a federal trade secrets law would have been unquestioned. The current Court's less deferential treatment of congressional acts, however, necessitates an inquiry into the constitutional bases for such a law. This Article examines the Patent and Copyright Clause,<sup>25</sup> the foreign affairs powers,<sup>26</sup> and the Commerce Clause<sup>27</sup> of the Constitution and concludes that a federal trade secrets act can clearly be grounded on the Commerce Clause because of the nexus between trade secrets and interstate commerce.<sup>28</sup> It may also be sustained by Congress's foreign affairs powers since a federal trade secrets law would enable the United States to fulfill its obligations under binding international agreements.<sup>29</sup> The Patent Clause, though, is unlikely to be a strong source of support because trade secrets are not necessarily original inventions or discoveries, and an earlier federal trademark law based on the Patent

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<sup>21</sup> General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, T.I.A.S. 1700, 55 U.N.T.S. 194 [hereinafter GATT].

<sup>22</sup> Before NAFTA and TRIPS, no international trade agreement dealt with the issue of trade secrets. See Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, revised by the Stockholm Revision Conference, July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886 (revised in Paris on July 24, 1971, amended in 1979), S. TREATY DOC. NO. 27 (1986), 828 U.N.T.S. 221.

<sup>23</sup> See *infra* notes 243-47 and accompanying text.

<sup>24</sup> 514 U.S. 549 (1995).

<sup>25</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>26</sup> The Constitution does not expressly confer foreign relations power to any branch of the federal government, but that power is assumed to be inherent in national sovereignty. See *Perez v. Brownell*, 356 U.S. 44, 57 (1958) ("Although there is in the Constitution no specific grant to Congress of the power to enact legislation for the effective regulation of foreign affairs, there can be no doubt of the existence of this power in the law-making organ of the Nation."); *United States v. Curtiss-Wright Export Corp.*, 299 U.S. 304, 318 (1936) ("[T]he investment of the federal government with the powers of external sovereignty did not depend upon the affirmative grants of the Constitution. [These powers] exist as inherently inseparable from the conception of nationality."); LOUIS HENKIN, *FOREIGN AFFAIRS AND THE U.S. CONSTITUTION* 16, 63-64, 70-72 (1996) (discussing Congress's foreign affairs powers).

<sup>27</sup> U.S. CONST. art. I, § 8, cl. 3.

<sup>28</sup> See *infra* Part IV.A.3.

<sup>29</sup> See *infra* Part IV.A.2.

Clause was invalidated by the Supreme Court for precisely that reason.<sup>30</sup>

From the perspective of policy, this Article contends that federalizing trade secrets law, in addition to producing many benefits, will not unduly frustrate the values usually associated with federalism.<sup>31</sup> Thus, despite the current political trend towards "new federalism,"<sup>32</sup> the enactment of a federal trade secrets law to regulate the only form of intellectual property currently not federally protected is justified as a matter of policy.

Part II discusses the growing prominence of trade secrecy in an information economy, which is caused in part by the perceived failure of the dominant intellectual property models (patent and copyright) to adequately protect much of today's intellectual property rights. Part III makes the case for a federal civil trade secrets law. It discusses the lack of uniformity in the existing body of law by setting forth the material differences between the *Restatement of Torts* approach to trade secrets and the Uniform Trade Secrets Act (UTSA), and between the UTSA and the various states' versions of it. Next, the Article discusses the impact of trade secrets law on interstate commerce and analyzes the unique choice of law issues in modern trade secret misappropriation cases. The section also reviews the United States' international obligations with respect to trade secret protection and argues that the United States can best meet these obligations with a federal trade secrets law. Part IV addresses federalism issues and concludes that both the Constitution and public policy support federal legislation in the area. Finally, Part V briefly highlights the scope of the federal trade secrets law that this Article envisions.

## II. THE GROWING PROMINENCE OF TRADE SECRETS LAW IN A HIGH-TECHNOLOGY, INFORMATION ECONOMY

Innovation is key to a dynamic economy and to the economic well-being of any developed country.<sup>33</sup> One generally recognized purpose of the intellectual property

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<sup>30</sup> See *infra* Part IV.A.1.

<sup>31</sup> See *infra* Part IV.B.

<sup>32</sup> "New federalism" refers to the political doctrine advocating radical downsizing of the federal government and the return of power to the states. It is a theme, first popularized by the Reagan administration, that the Republican majority in Congress espouses. See DAVID B. WALKER, *THE REBIRTH OF FEDERALISM, SLOUCHING TOWARD WASHINGTON* 151-62 (1995) (describing Reagan's "New Federalism" initiatives); *CONTRACT WITH AMERICA, THE BOLD PLAN BY REP. NEWT GINGRICH, REP. DICK ARMEY, AND THE HOUSE REPUBLICANS TO CHANGE THE NATION* (Ed Gillespie & Bob Schellhas eds., 1994) (proposing restoring state authority over welfare and mandates); E.J. Dionne, Jr., *The New, New, New Federalism*, WASH. POST, Mar. 7, 1995, at A17 (asserting that the call for greater powers for the state is based more on tactical than on principled reasons).

<sup>33</sup> See *Wilson v. Rousseau*, 45 U.S. (4 How.) 646, 692 (1846) ("All enlightened governments reward the inventor [sic] . . . Such results not only enrich a nation, but render it illustrious.");

regime is to provide economic incentives for innovation,<sup>34</sup> while balancing the countervailing public interest in promoting competition and the free flow and exploitation of information.<sup>35</sup> Incentives are considered necessary because innovations<sup>36</sup> are usually costly to develop, especially when the risks of failure are taken into account.<sup>37</sup> Additionally, because innovations are intangible, they are susceptible to being copied by anyone, including those who have not borne any of the associated costs or risks.<sup>38</sup> Without some legal protection, the innovator will

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*Hearing of the Senate Comm. on Intelligence and Senate Comm. on the Judiciary Subcomm. on Terrorism, Technology and Government Information, Economic Espionage*, Feb. 28, 1996, available in LEXIS, News Library, Fednew File [hereinafter *Senate Comm. Hearing on EEA*] (statement of Louis J. Freeh, Director, Federal Bureau of Investigation, asserting that intellectual property "is essential to maintaining the health and competitiveness of critical segments of the American economy" and that safeguarding industry's trade secrets is "warranted and necessary"); S. REP. NO. 104-359, at 5-6 (1996) (stating that it is "documented that proprietary economic information is vital to the prosperity of the American economy," and that "a nation's power is now determined as much by economic strength as by armed might").

<sup>34</sup> See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (stating that the purpose of patent and copyright laws is to promote creative activity on the part of authors and inventors); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 485 (1974) ("Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention."); *Goldstein v. California*, 412 U.S. 546, 555 (1973) (stating that copyright protection is intended to motivate artistic and intellectual creation); see also *supra* note 3.

<sup>35</sup> See *supra* note 4.

<sup>36</sup> For the purposes of this Article, the term "innovation" is used in the broadest sense to mean developing or producing any new information, knowledge, idea, method, process, device, or thing not commonly known in the industry, as contrasted with imitating existing ideas or things.

<sup>37</sup> See *G.S. Rasmussen & Assocs. v. Kaliitta Flying Serv., Inc.*, 958 F.2d 896, 900 (9th Cir. 1992) (Kozinski, J.) (stating that giving inventors the "right to reap the benefits of their efforts compensates them for the costs of innovation, the risk of failure and the potential liability that can arise if the product proves defective").

<sup>38</sup> Intellectual property is often characterized as a "public good." A public good is something that is not depleted by use and can be held by more than one person at a time. It can be taken from the owner by others at minimal cost. See Stephen L. Carter, *Owning What Doesn't Exist*, 13 HARV. J.L. & PUB. POL'Y 99, 102 (1990) (noting that public goods are "subject to non-rivalrous consumption, in the sense that one user's use of the idea does not reduce the value of the idea to another who wishes to use it," and they can be taken by others "at a cost close to zero"); Wendy J. Gordon, *Fair Use As Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1610-11 (1982) (discussing the public-good characteristics of intellectual property); Linda J. Lacey, *Of Bread and Roses and Copyrights*, 1989 DUKE L.J. 1532, 1554 (describing public goods as "those whose consumption by individual *A* does not preclude consumption by *B*, *C*, *D*, and others") (quoting John Cirace, *When does Complete Copying of Copyrighted Works for Purposes Other than for Profit or Sale Constitute Fair Use? An Economic Analysis of the Sony Betamax and Williams & Wilkins Cases*, 28 ST. LOUIS U. L.J. 647 (1984)); William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*,

inevitably lose to the second comer in a purely free market since the second comer, with lower costs, can charge lower prices. In the long run, absent some legal mechanism barring another's unauthorized use of an innovator's ideas and creations, innovation will languish because there will be little incentive on the part of anyone to create.<sup>39</sup>

At the same time, the intellectual property system recognizes that over-protection may actually *impede* innovation by depriving competitors (and users) of too much information that may be needed as building blocks for further progress. The drafters of the Constitution apparently decided that a national uniform policy on intellectual property would be necessary to maintain a careful balance between these two competing interests, for they expressly included the promotion of "the Progress of Science and useful Arts" in the enumerated powers granted Congress under the Constitution.<sup>40</sup> Pursuant to that enumerated power, the First Congress promptly enacted the country's first patent and copyright laws.<sup>41</sup>

The patent law reflects society's "bargain" with inventors; it affirmatively grants them, for a limited period of time, an absolute and exclusive right to use or otherwise benefit from their inventions (meeting certain standards)<sup>42</sup> in exchange for full disclosure of the invention so that the public would have free access to it<sup>43</sup> upon the expiration of the inventor's "monopoly." Because of the considerable rights conferred on a patent owner at the expense of free competition, the patent law sets demanding standards. For example, only inventions fitting within one of several

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18 J. LEGAL STUD. 325, 326 (1989) ("A distinguishing characteristic of intellectual property is its 'public good' aspect."). In other words, there are no natural barriers precluding those who have not paid for a public good from gaining access to it, thus causing a failure in the free market system.

<sup>39</sup> See generally Wendy J. Gordon, *Asymmetric Market Failure and Prisoner's Dilemma in Intellectual Property*, 17 U. DAYTON L. REV. 853 (1992) (asserting that intellectual property law is needed if, absent such protection, the prisoner's dilemma—or market failure—exists, creating a disincentive to innovate).

<sup>40</sup> See U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries").

<sup>41</sup> See Act of Apr. 10, 1790, ch. 7, 1 Stat. 109 (first patent law) (repealed 1793); Act of May 31, 1790, ch. 15, 1 Stat. 124 (first copyright law) (repealed 1802). The current patent and copyright statutes can be found in 35 U.S.C. § 101 (1994 & Supp. II 1996) and 17 U.S.C. § 101 (1994 & Supp. III 1997), respectively.

<sup>42</sup> The Patent Act provides that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore," which would provide the grantee a right "to exclude others from making, using or selling the invention throughout the United States" for a period of 20 years from the date of application for the patent. See 35 U.S.C. §§ 101, 154 (1994 & Supp. II 1996).

<sup>43</sup> See *id.* § 112.



designated subject matters<sup>44</sup> and meeting narrowly defined standards of novelty<sup>45</sup> and nonobviousness<sup>46</sup> are patentable. To ensure that these stringent standards are met, each patent application is subjected to a long and arduous administrative review.<sup>47</sup> Innovations that fail to satisfy these requirements, such as incremental innovations or business data that companies routinely develop, are unpatentable, no matter how costly or painstaking the process of producing the innovation, or of analyzing or synthesizing the information. In effect, the patent scheme gives inventors of certain "worthy" innovations lead time during which they are free from competition to enable them to recoup their costs and profit from their efforts. In return, the public receives the benefit of the inventor's new discoveries for later use.

The Copyright Act, like the patent law, also seeks to encourage creativity through a limited grant of exclusivity<sup>48</sup> to the creator in exchange for obtaining full and free access to the creator's work upon the termination of the copyright. The Act protects the expressions of ideas,<sup>49</sup> such as a book or painting, but not the ideas themselves.<sup>50</sup> Consequently, innovations that are valuable not so much for their form of expression as for the *ideas* underpinning them, such as a unique business

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<sup>44</sup> The protected subject areas are "process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." *Id.* § 101. Case law has found mathematical algorithms, abstract ideas, and laws of nature to be unpatentable. *See, e.g.,* *Gottschalk v. Benson*, 409 U.S. 63, 71–72 (1972).

<sup>45</sup> *See* 35 U.S.C. § 102 (1994) (requiring that an invention not be "known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent").

<sup>46</sup> *See id.* § 103 (providing that an invention is obvious, and hence unpatentable, if the "subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains").

<sup>47</sup> *See id.* § 131.

<sup>48</sup> *See* 17 U.S.C. § 106 (1994 & Supp. III 1997) (giving the author the exclusive right to reproduce, adapt, distribute, and display her work); *id.* § 302 (providing that the term of protection for authors or joint authors is the author's (or surviving joint author's) life plus fifty years; in cases of works for hire that are owned by a corporate entity, the term is 75 years from the date of publication or 100 years from the date of creation, whichever expires first).

<sup>49</sup> *See id.* § 102(a) (protecting the author of "original works of authorship fixed in any tangible medium of expression").

<sup>50</sup> *See id.*; *see also* *Sid & Marty Krofft Television Prods. v. McDonald's Corp.*, 562 F.2d 1157, 1163 (9th Cir. 1977) ("It is an axiom of copyright law that the protection granted to a copyrighted work extends only to the particular expression of the idea and never to the idea itself").

The Copyright Act also does not protect any "procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." 17 U.S.C. § 102(b).

plan, are not copyrightable.<sup>51</sup>

Innovations that are neither patentable nor copyrightable are not, however, completely without protection. Historically, state law has safeguarded trade secrets against misappropriation.<sup>52</sup> Although there is no single definition of the term "trade secret" or "misappropriation," trade secrets law fundamentally proscribes taking from another, through "improper means," an item of information that has value, so long as the possessor of the information has taken reasonable measures to guard its secrecy.<sup>53</sup> The element of "improper means" in trade secrecy reflects its goal of promoting commercial morality, in addition to encouraging innovation;<sup>54</sup> and the condition of secrecy ensures that protection, consistent with the policy underlying patent laws, would not apply to information already in the public domain.

Trade secrecy is generally considered less of a derogation from the norms of free competition than patents and copyrights in that it does not involve the granting of any exclusive rights to the trade secret holder.<sup>55</sup> For example, the law does not

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<sup>51</sup> Besides patents and copyrights, another federal source of intellectual property protection is found in the trademark laws, known as the Lanham Act. The Lanham Act protects a registered mark, used to identify a trademark owner's goods or services, against another's unauthorized use if the second use is likely to confuse consumers about the origin of the goods. *See* 15 U.S.C. §§ 1114, 1051–1127 (1994). The Act is intended to encourage the production of quality goods and services by ensuring that the goodwill associated with a trademark (generated as a result of the quality goods and services sold under the mark) will inure only to the benefit of the trademark owner, who created the goodwill, and not to others. Because there is little or no overlap between trade secrets and trademarks, analysis of substantive provisions of the Lanham Act is outside the scope of this Article.

<sup>52</sup> *See, e.g.,* *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979) (observing that trade secrets law assures that "the public is not deprived of the use of valuable, if not quite patentable" inventions) (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 485 (1974)); *Kewanee Oil*, 416 U.S. at 493 ("Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation."); *Fowle v. Park*, 131 U.S. 88, 97 (1889) (stating, in this first U.S. Supreme Court case involving trade secrets, that a trade secret agreement between the parties was valid because "[t]he policy of the law is to encourage useful discoveries by securing their fruits to those who make them").

<sup>53</sup> *See infra* Part III.A.1 to A.2.

<sup>54</sup> *See Kewanee Oil*, 416 U.S. at 481–83 (stating that state trade secrets and federal patent laws are unlikely to conflict because both serve the similar policy of encouraging innovation; additionally, trade secrets law is intended to maintain business ethics and promote fair dealing).

<sup>55</sup> *See id.* at 489–90 (observing that "[t]rade secret law provides far weaker protection in many respects than the patent law" in that it does not forbid independent discovery, reverse engineering, or the discovery of the trade secret by otherwise honest means, while "patent law operates 'against the world'"); *see also* 2 JAGER, *supra* note 6, § 11.01 (comparing the attributes of trade secret and patent protection).

In a sense, however, trade secrecy can be potentially more restrictive of competition than

prohibit deriving another's secret through independent discovery,<sup>56</sup> or reverse engineering,<sup>57</sup> it merely protects against the taking of the rightful possessor's secret by improper means,<sup>58</sup> which include, for example, "breach of faith" or using "reprehensible means."<sup>59</sup> For that reason, although trade secrets law is also available for patentable or copyrightable creations,<sup>60</sup> innovators with these types of works have often opted for the stronger federal protections.<sup>61</sup> Thus, state trade secrets law was historically less significant in the intellectual property scheme and its inconsistency of less consequence. Trade secrecy's secondary role is changing, however, as the American economy becomes predominately information-based.<sup>62</sup> Today, advanced technologies and the gathering and processing of information are vital to many businesses and account for a growing share of the national economy.<sup>63</sup>

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patents and copyrights, because a trade secret holder, unlike a patent inventor or copyright author, is not required to contribute any part of her innovation to society in return for protection.

<sup>56</sup> For a discussion of independent discovery as a proper means of obtaining trade secrets, see *American Can Co. v. Mansukhani*, 742 F.2d 314, 329–30 (7th Cir. 1984); *Texas Urethane, Inc. v. Seacrest Marine Corp.*, 608 F.2d 136, 139–40 (5th Cir. 1979); *Microbiological Research Corp. v. Muna*, 625 P.2d 690, 696–98 (Utah 1981).

<sup>57</sup> Reverse engineering describes the process whereby a second comer works backwards from the innovator's result or product to derive or reconstruct the secret behind the innovation. On the propriety of acquiring trade secrets through reverse engineering, see *S.I. Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1255–56 (3d Cir. 1985); *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 404–06 (9th Cir. 1982); *Angell Elevator Lock Co. v. Manning*, 205 N.E.2d 245 (Mass. 1965).

<sup>58</sup> See UNIF. TRADE SECRETS ACT § 1 cmt., 14 U.L.A. 433, 438 (1985) (listing some of the "proper means" of acquisition of trade secrets, which include discovery by independent invention, by reverse engineering, by observation of the item in public use, or through published literature).

<sup>59</sup> RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (noting that trade secret protection, unlike patents, does not award a monopoly to the owner, but protects "merely against breach of faith and reprehensible means of learning another's secret").

<sup>60</sup> See *Kewanee*, 416 U.S. at 489–91 (concluding that trade secret protection for patentable inventions is consistent with federal patent policy).

The Coca-Cola formula is the most famous example of a patentable process, which, although never patented, was successfully protected as a trade secret. See *Coca-Cola Bottling Co. v. Cola-Cola Co.*, 227 U.S.P.Q. (BNA) 18, 22 (D. Del. 1985).

<sup>61</sup> See *Kewanee*, 416 U.S. at 489–91 (asserting that given the weaker protection of trade secrets law, few inventors with patentable inventions are likely to "sit back [and] rely on trade secret law"). But see David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 J. OF ECON. PERSP. 61, 62–64 (1991) (disagreeing with the notion that rational inventors with patentable innovations will necessarily seek patent protection and arguing that they will choose trade secret protection if patent protection "is too costly relative to the value of their invention" or gives them "a reward substantially less than the benefit of their invention").

<sup>62</sup> See 1 JAGER, *supra* note 6, §§ 1.01, 1.02.

<sup>63</sup> See Mandel, *Digital Juggernaut*, *supra* note 1, at 23 (reporting that domestic sales of computers and other information goods and services are high, and the United States also runs a

Because the patent and copyright laws do not reach these emerging technologies, businesses are increasingly turning to trade secrecy for protection.<sup>64</sup> Nowhere is this more evident than in the computer software industry,<sup>65</sup> which happens to generate the largest trade surplus of any U.S. industry for the American economy.<sup>66</sup>

The patent paradigm is often considered a poor fit with software for several reasons. First, although the courts have finally decided, after years of vacillation, that software programs are patentable,<sup>67</sup> they have maintained that mathematical algorithms are unpatentable.<sup>68</sup> In other words, to be patentable, a program must be determined to contain not only mathematical algorithms but an implementation of those algorithms.<sup>69</sup> Given that algorithms routinely underlie computer programs, whether this criterion has been satisfied is inevitably an open question in every software patent application. Second, modern software programs often embody a few

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huge trade surplus in the area); *see also* S. REP. NO. 104-359, at 6-7 (1996) (commenting on the growing importance of proprietary economic information to American industry and to the national economy); H.R. REP. NO. 104-788, at 4 (1996), *reprinted in* 1996 U.S.C.C.A.N. 4021, 4022 (noting that "[t]he United States produces the vast majority of the intellectual property in the world" and that "intangible assets have become more and more important to the prosperity of companies").

<sup>64</sup> *See* 1 JAGER, *supra* note 6, § 1.01.

<sup>65</sup> *See, e.g.,* Victoria A. Cundiff, *Protecting Computer Software As A Trade Secret*, 444 PLI/PAT 7, 11-18 (June 17, 1996) (discussing the deficiencies of the patent and copyright laws in protecting computer software); Samuelson et al., *supra* note 6, at 2343-48, 2437-56 (discussing why patent and copyright laws are ill-suited to protecting computer software programs).

<sup>66</sup> *See* World—Computer/IT Software/Services FY99—IMI981113 (Best Market Reports, U.S. Dep't of Comm., Int'l Trade Admin.), *available at* <<http://www.stat-usa.gov>> (Globus & NTDB link). American companies supply 60% of the computer software market in Western Europe and 73% in the rest of the world, mostly Asia and Latin America. *See id.*; *see also* Mandel, *Digital Juggernaut*, *supra* note 1 (reporting that the U.S. has a \$3 billion trade surplus in computer-related services and that, in 1993, its international sales of informational-technology equipment totaled \$62 billion).

<sup>67</sup> *See* *Diamond v. Diehr*, 450 U.S. 175, 185-87 (1981) (holding a rubber curing process that included a computer program patentable). For a discussion of the case law development of patent protection for computer software, *see* David W. Carstens, *Legal Protection of Computer Software: Patents, Copyrights, and Trade Secrets*, 20 J. CONTEMP. L. 13, 20-37 (1994); Gustavo Siller, Jr. & Jonathan E. Retsky, *Patent and Trade Secret Protection of Computer Technology*, 6 SOFTWARE L.J. 239, 246-53.

<sup>68</sup> *See* *Diamond*, 450 U.S. at 185-87 (reaffirming the unpatentability of pure mathematical algorithms, although holding the software program in question patentable); *Parker v. Flook*, 437 U.S. 584, 589-90 (1978) (holding mathematical algorithms unpatentable); *Gottschalk v. Benson*, 409 U.S. 63, 71-72 (1972) (same).

<sup>69</sup> *See* *Diamond*, 450 U.S. at 185-87; *In re Iwahashi*, 888 F.2d 1370, 1374-75 (Fed. Cir. 1989); *In re Walter*, 618 F.2d 758, 767 (C.C.P.A. 1980).

generic programs that are integrated in a new way.<sup>70</sup> Because of the demanding requirement of novelty, these types of programs may not be sufficiently novel to be patentable, despite their commercial value.<sup>71</sup> A related problem is that software innovations are typically incremental in nature and may not meet the "novel" and "nonobvious" condition of patent law.<sup>72</sup> Third, apart from subject matter concerns, the long application process<sup>73</sup> may render patent protection useless for the many software programs with short life spans. Finally, patents may be of limited use because a program is principally valued for its result, but patents are typically granted for specific methods of achieving a result, not the result itself.<sup>74</sup> A patent will not preclude others from producing a program functionally similar to the innovator's using a different method.<sup>75</sup>

As to copyrights for computer software, the law is also fraught with uncertainty.<sup>76</sup> Copyrights extend only to the *expression* of ideas, whatever expression is finally determined to mean, but not to the ideas or processes themselves.<sup>77</sup> In the context of computer software, the copyright law will protect program "code" (or text) but not program "behavior" (or functionality), which is the main source of value in a program.<sup>78</sup> Because different codes can yield the same

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<sup>70</sup> See Ester C. Roditti, *The Choice Between Patents and Trade Secrets To Protect Software Innovation*, 479 PLI/PAT 701, 720 (May 7, 1997).

<sup>71</sup> In contrast, novelty and inventions are not necessary elements of the trade secret doctrine, and therefore these programs may be protectable as trade secrets. See, e.g., *Rivendell Forest Prods. Ltd. v. Georgia-Pacific Corp.*, 28 F.3d 1042, 1044 (10th Cir. 1994); *Integrated Cash Management Servs. Inc. v. Digital Transactions Inc.*, 920 F.2d 171 (2d Cir. 1990); *Computer Assocs. Int'l, Inc. v. Bryan*, 784 F. Supp. 982 (E.D.N.Y. 1992).

<sup>72</sup> See Samuelson et al., *supra* note 6, at 2346.

<sup>73</sup> See, e.g., 1 JAGER, *supra* note 6, § 1.01, at 1-1 (noting that an advantage of trade secret over patent protection is that the former involves "no bureaucratic delays and no multiyear waits"); Siller & Retsky, *supra* note 67, at 243 (explaining that with the Patent Office's backlog of cases, the review process of an application with no significant complications can still take one to two years from the date of filing).

<sup>74</sup> See Samuelson et al., *supra* note 6, at 2345.

<sup>75</sup> See *id.*

<sup>76</sup> The 1978 Copyright Act was silent on the copyrightability of computer software, but Congress eventually amended § 117 of the Copyright Act, through the enactment of the Software Copyright Act of 1980, to explicitly extend copyright protection to software. Even so, the scope of copyright protection for software remains uncertain. See Victoria A. Cundiff, *Trade Secret law—Contracts—Misappropriation: Are They Preempted?*, 453 PLI/PAT 61 (1996) (discussing why copyright law is not ideal for protecting computer software programs); Samuelson et al., *supra* note 6, at 2347-56 (same).

<sup>77</sup> See 17 U.S.C. §§ 101(b), 102 (1994 & Supp. III 1997); *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 703 (2d Cir. 1992) (reaffirming idea/expression dichotomy).

<sup>78</sup> See Samuelson et al., *supra* note 6, at 2318 (explaining that consumers buy a program for

function,<sup>79</sup> a software engineer can duplicate the behavior of another's program through the use of code "sufficiently dissimilar on the level of expression [with the first program] to defeat liability for copyright infringement."<sup>80</sup> Further contributing to the uncertainty of copyright protection, some expressions in software programs have been held uncopyrightable because they were deemed dictated by the computer hardware or other software with which they had to be integrated.<sup>81</sup> The ambiguity of these rulings makes it even more difficult to predict when a program will be deemed sufficiently similar in expression to another to constitute copyright infringement. For these reasons, at least for non-mass-marketed programs licensed to users through negotiated agreements,<sup>82</sup> many software developers now rely on

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its function, not for its program "code").

<sup>79</sup> See *id.* at 2345.

<sup>80</sup> *Comprehensive Techs. Int'l, Inc. v. Software Artisans, Inc.*, 3 F.3d 730, 736 n.7 (4th Cir.), *judgment vacated on agreement of the parties*, No. 92-1837, 1993 U.S. App. LEXIS 28601 (4th Cir. Sept. 30, 1993).

<sup>81</sup> See, e.g., *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807, 815-18 (1st Cir. 1995) (finding that some expressions of the processes embodied in the program code are uncopyrightable), *aff'd per curiam*, 516 U.S. 233 (1996); *Computer Assocs. v. Altai*, 982 F.2d at 706-12 (holding that elements dictated by efficiency or by computer hardware or software with which the new program must be integrated are uncopyrightable); Cundiff, *supra* note 65, at 14-15 (same).

<sup>82</sup> Software is first created in "source code," which is language readily understood by software engineers. It is then translated by a machine "compiler" into machine-readable-only language known as "object code." Software programs are sold or licensed with the object code, but not the source code, which is kept secret by the software developer. Even if copyright protection is sought, the law requires only a small portion of the source code to be filed with the Copyright Office; the remainder may be kept secret. See 37 C.F.R. § 202.20(c)(2)(vii)(A)(2) (1998). Although the object code can be "decompiled" or reverse engineered to recreate the source code which is readable by humans, the task is difficult and time consuming. Thus, courts have concluded that public and unrestricted disclosure of an *object* code, through sale or license of a program, does not compromise the secrecy of the program so long as secrecy of the source code is maintained. To obtain trade secret protection for software licensed to specific users, developers can use restrictive disclosure agreements effectively banning reverse engineering. Such agreements, individually negotiated between the parties, are likely enforceable. See *Universal Gym Equip., Inc. v. ERWA Exercise Equip. Ltd.*, 827 F.2d 1542, 1549 (Fed. Cir. 1987) (upholding, against a claim of preemption under patent law, a contract prohibiting a licensee from using any feature or design of a machine upon termination of the license). Trade secret protection for mass-marketed software is, however, more problematic. Software developers often try to unilaterally impose use restrictions, including bans on reverse engineering, on buyers of the software through "shrinkwrap" licenses, which are visible only when one opens the package. It is unclear whether shrinkwrap licenses are enforceable, although the Seventh Circuit Court of Appeals has held that they are. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1451 (7th Cir. 1996); see also 2 JAGER, *supra* note 6, §§ 9.03, 9.04[1],[2] (discussing source codes, object codes, licensing agreements and "shrinkwrap licenses").

trade secret protection, in combination with or in lieu of copyright.<sup>83</sup>

Another factor behind the growing use of trade secrets law in recent years is the increased vulnerability of trade secrets in an electronic age.<sup>84</sup> Trade secrets are more susceptible to misappropriation today because of remarkable advances in telecommunications and other technologies, as well as increased employee mobility.<sup>85</sup> Electronic media such as e-mail and the internet have made the surreptitious, and instantaneous, transfer of valuable information across state and even national lines almost effortless.<sup>86</sup> Information from corporate data bases on

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<sup>83</sup> See *Rivendell Forest Prod., Ltd. v. Georgia-Pacific Corp.*, 28 F.3d 1042 (10th Cir. 1994) (relying on trade secret protection for a computer software system developed to provide immediate answers on all aspects of customers' needs); *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655 (4th Cir. 1993) (successfully claiming trade secret protection for a computer program written to perform survey calculations for the construction of subway tunnels); *Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171 (2d Cir. 1990) (winning an injunction on a trade secret claim for a computer program that combined non-secret utility programs arranged in a way not generally known); see also 1 JAGER, *supra* note 6, § 9.02[2], at 9-4 (claiming that "trade secrets are by far the most commonly used method for protecting software"); Cundiff, *supra* note 65, at 11-12 (stating that software developers and owners should "consider using trade secret safeguards, whether alone or in combination with other legal regimes"); Gale R. Peterson, *Trade Secrets in an Information Age*, 32 HOUS. L. REV. 385, 386 (1995); Siller & Retsky, *supra* note 67, at 244.

<sup>84</sup> See S. REP. NO. 104-359, at 6 (1996) (observing that information is a "prime target" for misappropriation because it is expensive to develop and computer technology has made it easy to misappropriate); H.R. REP. NO. 104-788, at 4-5 (1996), *reprinted in* 1996 U.S.C.C.A.N. 4021, 4022-24 (same).

<sup>85</sup> See 1 JAGER, *supra* note 6, § 1.03, at 1-8 (observing that extremely valuable ideas can be "embodied in compact and easily transportable form, and espionage techniques are highly sophisticated"); Michael J. Hutter, *Protecting Trade Secrets*, 269 PLI/PAT 9, 11 (1989) (stating that the explosion of trade secret misappropriation in the 1980s is attributable in part to increased employee mobility and declining morals).

<sup>86</sup> The well-publicized and recently settled trade secret misappropriation case involving General Motors and Volkswagen, for example, well illustrates the revolutionary ease with which trade secrets may now be misappropriated. A former senior executive of General Motors defected to Volkswagen with voluminous amounts of proprietary information belonging to GM. He allegedly accomplished his deed by transferring the information (90,000 text file pages) from the United States to Germany via GM's internal computer networks and then downloading the information from GM's network in Germany to Volkswagen's computer system in Germany, all with apparent ease. See Gabriella Stern & Brandon Mitchener, *VW Agrees to Give GM \$100 Million To Settle Lopez Trade Secret Lawsuit*, WALL ST. J., Jan. 10, 1997, at A3 (reporting the parties' settlement of the case, with Volkswagen agreeing to pay GM \$100 million and to buy \$1 billion in parts from GM over seven years); see also Melvin F. Jager & William J. Cook, *Trade Secrets and Industrial Espionage: Online Piracy*, 11 NO. 1 WHITE-COLLAR CRIME REP. 3 (Jan. 1997); Edmund L. Andrews, *International Business: None Prove So Stubborn As A Giant Spurned; G.M. Never Wavered in Its 4-Year Fight Over Executive Who Defected to VW*, N.Y. TIMES, Jan. 11, 1997, at 37.

computer systems can be accessed via modem from remote locations, even internationally.<sup>87</sup> Moreover, large amounts of information can be compactly packed into disks for easy transportation. Although no comprehensive data has been collected, accounts of trade secret thefts abound,<sup>88</sup> and various limited surveys support the anecdotal evidence.<sup>89</sup> A study conducted by the American Society for Industrial Security in 1995, for example, found a 323% increase in occurrences of trade secret misappropriation during the previous two years.<sup>90</sup> Another survey, conducted in 1988, found that 48% of 150 high-technology companies canvassed had been victims of trade secret misappropriation.<sup>91</sup> It is estimated that these thefts cost American businesses billions of dollars in lost sales annually.<sup>92</sup>

Regardless of one's views on the current status of federal patent and copyright laws, the reality is that the inapplicability (or uncertain applicability) of those laws to many of the new forms of innovations has caused businesses to increasingly look to trade secrets law for protection.<sup>93</sup> With the new prominence of trade secrecy in

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<sup>87</sup> See *Hearing Before the House Judiciary Comm., Subcomm. on Crime on Economic Espionage*, 104th Cong. (May 9, 1996), available in LEXIS, News Library, Fednew File [hereinafter *House Comm. Hearing on EEA*] (statement of Thomas W. Brunner, U.S. Chamber of Commerce).

<sup>88</sup> See Gregory L. Miles, *Information Thieves Are Now Corporate Enemy No. 1*, BUS. WK., May 5, 1986, at 120.

Although most of the cases are eventually settled, plaintiffs have received multimillion dollar damage awards in a few recent trade secret misappropriation cases. See *Vermont Microsystems Inc. v. Autodesk Inc.*, No. 2:92-CV-309, 1994 U.S. Dist. LEXIS 18737 (D. Vt. Dec. 23, 1994) (awarding plaintiff \$25.5 million); Frederick Rose, *Rockwell International Plans to Appeal Steep Award in Celeritas Cellular Case*, WALL ST. J., Jan. 31, 1997, at A4 (reporting award of \$115.3 million to plaintiff for patent infringement and trade secret misappropriation).

<sup>89</sup> See S. REP. NO. 104-359, at 7-9 (1996) (summarizing reports showing an increasing number of trade secret misappropriation incidents and describing some of those incidents).

<sup>90</sup> See RICHARD HEFFERNAN & DAN SMARTWOOD, *TRENDS IN INTELLECTUAL PROPERTY LOSS SURVEY 4* (1996), cited in S. REP. NO. 104-359, at 8 (1996).

<sup>91</sup> See Lois F. Mock & Dennis Rosenbaum, *A Study of Trade Secrets Theft in High-Technology Industries*, in NATIONAL INSTITUTE OF JUSTICE DISCUSSION PAPER 6 (1988), cited in S. REP. NO. 104-359, at 8 (1996).

<sup>92</sup> See Miles, *supra* note 88, at 120; *Senate Comm. Hearing on EEA*, *supra* note 33 (statement of FBI Director Freeh); Hutter, *supra* note 85, at 11 (citing *Corporate Cloak and Dagger*, TIME, Aug. 20, 1982, at 62-63).

<sup>93</sup> Some commentators contend that the inability of the patent and copyright laws to reach some of the emerging technologies is a deficiency that should be rectified by a broadening of the federal laws to adapt to these modern forms of innovations. Others, however, support the "limitations" of the patent and copyright laws as appropriate. See, e.g., Reichman, *supra* note 5 (arguing that new forms of innovation are not adaptable to the traditional patent and copyright paradigms and that a "menu of options" for protection should be developed); Stephen Fraser, *Canada-United States Trade Issues: Back From Purgatory? Why Computer Software "Shrink-*



the intellectual property system in the 1990s, a uniform national policy seems as warranted for trade secrecy today as for the other major forms of intellectual property—patents and copyrights.

### III. THE NEED FOR A FEDERAL TRADE SECRETS LAW

#### A. *The Lack of Uniformity in State Trade Secrets Law*

Trade secrets law, borrowing concepts from old English cases, developed haphazardly in the early years in the United States.<sup>94</sup> *The Restatement (First) of Torts*, which made the first attempt to articulate the general principles of the law,<sup>95</sup> managed to coalesce the various common law concepts but fell short of leading the states to a uniform law.<sup>96</sup>

A second effort at harmony was made in 1979, when the National Conference of Commissioners on Uniform State Laws drafted the Uniform Trade Secrets Act (UTSA) and recommended its adoption by the states.<sup>97</sup> The Act was subsequently amended in 1985 to clarify ambiguous provisions and to strengthen its remedial framework.<sup>98</sup> However, unlike the Uniform Commercial Code, the UTSA never

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*Wrap" Licenses Should be Laid to Rest*, 6 TUL. J. INT'L. & COMP. L. 183, 193 (1998) (arguing that "the limitations to the copyright protection of computer software were legislated by Congress . . . for the protection of users of the programs"). It is not the purpose of this Article to enter into this debate. Rather, it is important to observe that irrespective of one's position on this issue, the fact remains that trade secrecy has assumed a more dominant role in the intellectual property system because the new forms of innovation do not fall neatly within the traditionally dominant patent and copyright parameters. As trade secrecy moves away from its role as merely a secondary source of intellectual property protection for "lesser" inventions, the problems arising from the lack of uniformity in the state laws become less acceptable.

<sup>94</sup> The trade secret misappropriation cause of action originated in the English common law. See, e.g., *Morison v. Moat*, 68 Eng. Rep. 492 (1851); *Yovatt v. Winyard*, 37 Eng. Rep. 425 (1820); *Williams v. Williams*, 36 Eng. Rep. 61 (1817). See generally 1 JAGER, *supra* note 6, § 2.01 (discussing the development of trade secrets law from early English common law to its current form in this country). It was brought into this country in a series of mid-nineteenth century cases. See, e.g., *Peabody v. Norfolk*, 98 Mass. 452 (1868); *Taylor v. Blanchard*, 95 Mass. 370 (1866); *Vickery v. Welch*, 36 Mass. 523 (1837); *Hammer v. Barnes*, 26 How. Pr. 174 (N.Y. Sup. Ct. 1863); *Jarvis v. Peck*, 10 Paige Ch. 118 (N.Y. Ch. 1843).

<sup>95</sup> See § 757.

<sup>96</sup> See *infra* Part III.A.1.

<sup>97</sup> See UNIF. TRADE SECRETS ACT (UTSA), prefatory note, 14 U.L.A. 433, 435–36 (1985) (describing the history of the drafting of the UTSA).

<sup>98</sup> Compare the original and the amended versions of UTSA §§ 2, 3, 7 & 11, 14 U.L.A. at 449–467 (containing both versions; language added in the 1985 amendments is denoted by underlines while text in the original Act deleted in 1985 is indicated by strikeouts). See James C. Lydon, *The Deterrent Effect of the Uniform Trade Secrets Act*, 69 J. PAT. & TRADEMARK OFF.

won the support of all of the states,<sup>99</sup> and even the states that did adopt the UTSA modified it, sometimes substantially, before enactment.<sup>100</sup> Consequently, despite the UTSA, the law on trade secret misappropriation continues to vary from jurisdiction to jurisdiction.

More recently, a section on trade secrets, largely consistent with the UTSA, was included in the *Restatement (Third) of Unfair Competition*.<sup>101</sup> However, there is no indication yet that the jurisdictions that have so far resisted the UTSA have now abandoned the old Restatement in favor of the new Restatement principles.<sup>102</sup> In fact, one commentator has observed that courts have mainly ignored the new Restatement and are continuing to rely on the original Restatement definitions and interpretations.<sup>103</sup>

This section will begin with a brief discussion of section 757 of the *Restatement (First) of Torts* and of the UTSA, which will set the stage for an analysis of the material differences between the two models and of the significant modifications made to the UTSA by the adopting states. It will not separately analyze the trade secrets provisions of the *Restatement (Third) of Unfair Competition* because they essentially conform to the UTSA.<sup>104</sup>

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SOC'Y 427, 43-40 (1987) (discussing the differences between the original UTSA and the amended UTSA). Unless otherwise specified, subsequent references in this Article to the UTSA are to provisions that are identical in both versions of the Act, and will be cited simply as UTSA § [section number] for simplicity.

<sup>99</sup> Eight states have chosen not to adopt the UTSA: Massachusetts, Michigan, New York, New Jersey, Pennsylvania, Tennessee, Texas, and Wyoming. Massachusetts has its own trade secret statute, which is not based on the UTSA. See MASS. ANN. LAWS ch. 93, §§ 42-42A (Law. Co-op. 1994). The other seven non-UTSA states have no statutory trade secrets law and continue to rely on the principles set forth in section 757 of the *Restatement (First) of Torts* for guidance.

<sup>100</sup> Although forty-two states have enacted the UTSA in one form or another, their statutes are modeled on different versions of the Act, and most include various modifications. In fact, the trade secrets statutes of North Carolina and Alabama depart so substantially from the UTSA that they can hardly be considered enactments of the UTSA. Even as to identical elements in the states' statutes, interpretational differences remain. See *infra* notes 143-47 and accompanying text.

<sup>101</sup> §§ 39-45 (1995). For detailed discussion of the relevant new Restatement provisions, see 1 JAGER, *supra* note 6, § 3.03. The subject matter of trade secrets was excluded from the *Restatement (Second) of Torts*.

<sup>102</sup> See, e.g., *Merckle GmbH v. Johnson & Johnson*, 961 F. Supp. 721, 730 & n.11 (D.N.J. 1997) (continuing to rely on the definition of trade secrets found in the *Restatement (First) of Torts* although observing, in a footnote, that the new Restatement is "relevant, if not instructive").

<sup>103</sup> Pace, *supra* note 8, at 430 n.12.

<sup>104</sup> Unless otherwise noted, all subsequent references to the Restatement will be to the *Restatement (First) of Torts*.

1. *The Restatement Principles—Section 757 of the  
Restatement (First) of Torts*

Fundamentally, the Restatement calls for ascertaining whether a trade secret exists and, if so, whether it has been misappropriated.<sup>105</sup> A trade secret is defined as “any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”<sup>106</sup> As the term implies, “a substantial element of secrecy” must be present,<sup>107</sup> and the owner must act reasonably to preserve the secrecy of the information.<sup>108</sup> To determine whether any given information constitutes a trade secret, the Restatement lists six factors that should be considered.<sup>109</sup>

Assuming that a trade secret is shown, the Restatement proscribes another’s use or disclosure of the secret only if it had been acquired through “improper means,”<sup>110</sup>

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<sup>105</sup> See RESTATEMENT (FIRST) OF TORTS § 757 (1939). The section provides as follows:

One who discloses or uses another’s trade secret, without a privilege to do so, is liable to the other if

(a) he discovered the secret by improper means, or

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person’s disclosure of it was otherwise a breach of his duty to the other, or

(d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

*Id.*

<sup>106</sup> *Id.* § 757 cmt. b.

<sup>107</sup> See *id.* (“The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret.”).

<sup>108</sup> See Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 278 (1980).

<sup>109</sup> See RESTATEMENT (FIRST) OF TORTS § 757 cmt. b. (1939). The factors are:

(1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease and difficulty with which the information could be properly acquired or duplicated by others.

*Id.*

<sup>110</sup> *Id.* § 757(a). The Restatement does not define “improper means” but merely states, in its

or if the use or disclosure constitutes a breach of confidence.<sup>111</sup> The Restatement also extends liability to a third party's use or disclosure of the secret if the third party had acquired the information from another with notice that it was secret and that either the information was originally acquired through improper means or the other's disclosure of the trade secret to her was in breach of confidence.<sup>112</sup> Under the Restatement, trade secrets are protected even against accidental disclosures if the defendant had notice that the information disclosed was a trade secret and that the disclosure to her was accidental.<sup>113</sup>

Despite its contribution, the Restatement did not bring about uniformity, partly because the Restatement, by its nature, is merely expository, not statutory. Thus, courts are free to adopt, reject, and interpret it as they see fit.<sup>114</sup> The Restatement

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comments, that they are "means which fall below the generally accepted standards of commercial morality and reasonable conduct." It cites, as examples of such means, "fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage." *Id.* § 757 cmt. f.

<sup>111</sup> See *id.* § 757(b). The Restatement gives a few examples of confidential relationships, such as the relationship between principal and agent. Additionally, the Restatement describes other situations that may give rise to a duty of confidence, such as the seller's disclosure of a secret to a prospective buyer solely to enable the prospective buyer to evaluate its value. See *id.* § 757 cmt. j.

<sup>112</sup> See *id.* § 757(c).

<sup>113</sup> See *id.* § 757(d).

<sup>114</sup> For example, some states approved of the Restatement's limitation that information must be in "*continuous use* in the operation of a business" to qualify as a trade secret, while other states either rejected or overlooked the requirement. For cases adopting the Restatement's continuous use requirement, see, for example, *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 297-98 (2d Cir. 1986) (suggesting that trade secret status did not extend to cases involving a "single or ephemeral" use by the trade secret owner); *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 899 (5th Cir. 1981) (suggesting that negative know-how does not qualify as a trade secret); *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 251, 67 Cal. Rptr. 19 (1968) (suggesting that an owner's use of a claimed trade secret is required for legal protection); *Victor Chem. Works v. Iliff*, 132 N.E. 806, 812 (Ill. 1921) (stating that the trade secret owner must prove that it was using the secret process); *Kendall/Hunt Publ'g. Co. v. Rowe*, 424 N.W. 2d 235, 246 (Iowa 1988) (applying the use requirement to deny protection to an "ephemeral" list of names that was constantly changing). For cases that have rejected the requirement, see, for example, *Syntex Ophthalmics, Inc. v. Novicky*, 214 U.S.P.Q. 272, 278 (N.D. Ill. 1982), *aff'd sub nom.* *Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677 (7th Cir. 1983) (stating that Illinois law did not impose an "actual use" requirement on the owner for the information to qualify as trade secret); *Ferrolite Corp. v. General Aniline & Film Corp.*, 207 F.2d 912, 921-22 (7th Cir. 1953) (finding no authority in New Jersey law, which controlled, as requiring plaintiff's use of the secret); *Harris Mfg. Co. v. Williams*, 157 F. Supp. 779, 787-88 (W.D. Ark. 1957) (finding that the trade secret owner's inability to exploit the trade secret does not mean that the trade secret claim is abandoned); *Prince Mfg., Inc. v. Automatic Partner, Inc.*, 191 U.S.P.Q. 450, 458 (N.J. Super. Ct. 1976) (rejecting requirement of use by a trade secret owner).

has also been faulted for its lack of clarity<sup>115</sup> and its failure to present a coherent remedial framework or to recommend a statute of limitations.<sup>116</sup> Today, several states with significant commercial activity, such as New York, Texas, and Pennsylvania, continue to draw on the principles of trade secrets law articulated in the Restatement.<sup>117</sup>

## 2. *The Uniform Trade Secrets Act*

The UTSA, like the Restatement, requires the existence of a "trade secret" and its "misappropriation" before liability attaches.<sup>118</sup> Its definition of the term "trade secret," however, is broader than the Restatement's; it includes:

information, including a formula, pattern, compilation, program, device, method, technique, or process that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the

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Overall, as one court noted, trade secret cases were not "marked by any discernable consistency" and tended to "vary quite widely." *See Rohm & Haas Co. v. Adco Chem. Co.*, 213 U.S.P.Q. 723, 751 (D.N.J. 1981), *rev'd*, 689 F.2d 424 (3d Cir. 1982).

<sup>115</sup> *See* UTSA (amended 1985) prefatory note, 14 U.L.A. 433, 434 (1990) (noting the "undue uncertainty concerning the parameters of trade secret protection" and the "confused status" of the law); Richard Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 GEO. WASH. L. REV. 927, 937-38 (1974) (arguing that development of trade secrets law under the Restatement led to inconsistencies as courts relied on different legal theories of recovery, including express or implied contract, property, unjust enrichment, and tort).

<sup>116</sup> *See* Klitzke, *supra* note 108, at 283 & n.32-33 (noting that the Restatement is silent on the statute of limitations for trade secret misappropriation, and its treatment of damages is inadequate); Stern, *supra* note 115, at 938 (observing that jurisdictions differed considerably on the use of injunctions and on the measure of damages).

<sup>117</sup> *See* UTSA, 14 U.L.A. 433, 433 (1985) (Table of Jurisdictions Wherein Act has Been Adopted) (providing a listing of the forty-two states that have enacted some form of the UTSA). The eight states that have not enacted the UTSA are Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Tennessee, Texas, and Wyoming. Of these eight states, Massachusetts has its own statutory protection for trade secrets, but apparently continues to rely on the Restatement definitions. *See* 2 JAGER, *supra* note 6, Mass.01-Mass.04 & n.34 (citing cases).

<sup>118</sup> The original UTSA, adopted in 1979, was amended in 1985 primarily to clarify ambiguities in the original Act and to strengthen its remedial provisions. The amendments do not significantly modify the scope or philosophy of the original Act. *Compare* UTSA §§ 2, 3, 7 & 11 (1979), *with* UTSA (as amended in 1985), 14 U.L.A. 433 (1985) (material added in 1985 is indicated by underlines and material from the original UTSA deleted in 1985 is indicated by strikeouts).

circumstances to maintain its secrecy.<sup>119</sup>

Unlike the Restatement, the UTSA rejects use by the trade secret owner as a prerequisite for legal protection.<sup>120</sup>

In another departure from the Restatement, the UTSA's definition of misappropriation treats the improper acquisition of a trade secret and its subsequent use or disclosure as separate bases of action.<sup>121</sup> In other words, those who acquire another's trade secrets through improper means are subject to liability<sup>122</sup> even if they never use or disclose the information so acquired.<sup>123</sup> Similarly, third parties are liable for their acquisition of a trade secret with actual or constructive knowledge that the trade secret was originally acquired through improper means, irrespective of whether they actually use or disclose the acquired information.<sup>124</sup>

Treated as a separate category of misappropriation by the UTSA,<sup>125</sup> the unauthorized disclosure or use of a trade secret is actionable if the information was

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<sup>119</sup> UTSA § 1(4).

<sup>120</sup> See *id.* § 1 cmt. at 439 (rejecting the Restatement definition of trade secret "which required that a trade secret be 'continuously used in one's business'").

<sup>121</sup> See *id.* § 1(2). Under this section:

"Misappropriation" means:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
  - (A) used improper means to acquire knowledge of the trade secret; or
  - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
    - (I) derived from or through a person who had utilized improper means to acquire it;
    - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
  - (C) before a material change of his position, knew or had reason to know it was a trade secret and that knowledge of it had been acquired by accident or mistake.

*Id.*

<sup>122</sup> Adopting the Restatement approach, the UTSA does not exhaustively define the term "improper means," but merely sets forth examples of what the term might include: "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." *Id.* § 1(1).

<sup>123</sup> See *id.* § 1(2)(i).

<sup>124</sup> See *id.*

<sup>125</sup> See *id.* § 1(2)(ii).

acquired either in the context of a confidential relationship (*e.g.*, employment)<sup>126</sup> or through improper means.<sup>127</sup> Disclosure or use by third parties is also actionable when the third party has actual or constructive notice that the information was secret and that either its original acquisition was through improper means<sup>128</sup> or that the information was disclosed to her in breach of confidence.<sup>129</sup> Finally, even accidental acquirers of a trade secret are liable upon their disclosure or use of the secret if, before materially altering their position, they knew or had reason to know that the information was secret and that their acquisition was accidental or a mistake.<sup>130</sup>

Unlike the Restatement, the UTSA includes a comprehensive remedial framework<sup>131</sup> and a statute of limitations.<sup>132</sup> Actual or threatened misappropriation may be enjoined,<sup>133</sup> but perpetual injunctions, deemed punitive, are disfavored.<sup>134</sup> Instead, injunctions may last only until good faith competitors learn of the trade secret through proper means, plus any lead time advantage the misappropriator has gained.<sup>135</sup> "In extreme circumstances," the court may award reasonable royalties, in effect a compulsory license, in lieu of an injunction.<sup>136</sup> With respect to monetary

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<sup>126</sup> See *id.* § 1(2)(ii)(B)(II).

<sup>127</sup> See *id.* § 1(2)(ii)(A).

<sup>128</sup> See *id.* § 1(2)(ii)(B)(I).

<sup>129</sup> See *id.* § 1(2)(ii)(B)(III).

<sup>130</sup> See *id.* § 1(2)(ii)(C).

<sup>131</sup> See *id.* §§ 2–4.

<sup>132</sup> See *id.* § 6.

<sup>133</sup> See *id.* § 2(a). This section states the following:

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

*Id.*

<sup>134</sup> See *id.* § 2 cmt.

<sup>135</sup> See *id.* § 2(a).

<sup>136</sup> See *id.* § 2(b). This section states the following:

In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and

relief, both actual damages and unjust enrichment may be recovered.<sup>137</sup> The UTSA also authorizes punitive damages up to twice the compensatory award in cases of "willful and malicious misappropriation,"<sup>138</sup> and reasonable attorney's fees to the prevailing party in egregious situations.<sup>139</sup>

In contrast to the Restatement's silence on the statute of limitations,<sup>140</sup> the UTSA specifically provides for a three-year period, which runs from the date the misappropriation is discovered or should have been discovered.<sup>141</sup> However, a continuing misappropriation is considered a single claim, not a continuing wrong, and, therefore, continued wrongful use does not prevent the running of the statute.<sup>142</sup>

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prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

*Id.*

The original version of the Act did not include the words "in exceptional circumstances" or the explanation of what might constitute exceptional circumstances. *See id.* § 2(b). Thus, under the 1979 Act, the court had wide discretion in deciding whether to grant an injunction or to award what amounts to a compulsory license. The 1985 amendments sought to limit the court's discretion by clarifying that it should choose royalties over an injunction only in exceptional circumstances.

<sup>137</sup> *See id.* § 3(a). However, to the extent that any unjust enrichment is taken into account in computing actual loss, it cannot be added on again in computing unjust enrichment. In other words, double counting of damages is not permitted. *See id.*

<sup>138</sup> *Id.* § 3(b) ("If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).").

<sup>139</sup> *See id.* § 4 ("If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.").

<sup>140</sup> Of course, statutes of limitation are, by definition, acts of legislatures rather than the type of expository statements of judicial common law that are normally included in Restatements.

<sup>141</sup> *See id.* § 6 ("An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered . . .").

<sup>142</sup> *See id.* ("For the purposes of this section, a continuing misappropriation constitutes a single claim."). *But see* *Underwater Storage, Inc. v. U.S. Rubber Co.*, 371 F.2d 950, 953 (D.C. Cir. 1966) (adhering to a continuing wrong approach); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 426 (E.D. Pa. 1980) (same); *McCormack & Dodge Corp. v. ABC Management Sys., Inc.*, 222 U.S.P.Q. 432, 444 (Wash. Super. Ct. 1983) (holding that each unauthorized use of a trade secret is an independent misappropriation under the Act which starts the running of a new limitation period).

Another UTSA section that has no counterpart in the Restatement is the UTSA's requirement that the court protect the secrecy of trade secrets disclosed in litigation, so that the very information for which protection is sought will not be disclosed in the process of litigation itself. *See* UTSA § 5.



To date, forty two states have enacted the UTSA.<sup>143</sup> Modeled on either the original or the 1985 version,<sup>144</sup> these state statutes often include many modifications.<sup>145</sup> Indeed, the statutory enactments of two states, North Carolina<sup>146</sup> and Alabama,<sup>147</sup> deviate so radically from the UTSA that they are hardly recognizable as adoptions of the uniform act.

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<sup>143</sup> See ALA. CODE §§ 8-27-1 to 8-27-6 (1993); ALASKA STAT. §§ 45.50.910 to 45.50.945 (Michie 1996); ARIZ. REV. STAT. ANN. §§ 44-401 to 44-407 (West 1994); ARK. CODE ANN. §§ 4-75-601 to 4-75-607 (Michie 1991); CAL. CIV. CODE §§ 3426 to 3426.11 (West 1997); COLO. REV. STAT. §§ 7-74-101 to 7-74-110 (1997); CONN. GEN. STAT. ANN. §§ 35-50 to 35-58 (West 1997); DEL. CODE ANN. tit. 6, §§ 2001-2009 (1993); D.C. CODE ANN. §§ 48-501 to 48-510 (1997); FLA. STAT. ANN. §§ 688.001-.009 (West 1990 & Supp. 1997); GA. CODE ANN. §§ 10-1-760 to 10-1-767 (1994); HAW. REV. STAT. §§ 482B-1 to 482B-9 (1992); IDAHO CODE §§ 48-801 to 48-807 (1997); 765 ILL. COMP. STAT. ANN. 1065/1 to 1065/9 (West 1993); IND. CODE ANN. §§ 24-2-3-1 to 24-2-3-8 (Michie 1995); IOWA CODE ANN. §§ 550.1 to 550.8 (West Supp. 1994); KAN. STAT. ANN. §§ 60-3320 to 60-3330 (1994); KY. REV. STAT. ANN. §§ 365.880-.900 (Michie 1996); LA REV. STAT. ANN. §§ 51:1431-:1439 (West 1987 & Supp. 1995); ME. REV. STAT. ANN. tit. 10, §§ 1541-1548 (West 1997); MD. CODE ANN., Com. Law. II §§ 11-1201 to 11-1209 (1990); MINN. STAT. ANN. §§ 325c.01 to 325c.08 (West 1995); MISS. CODE ANN. §§ 75-26-1 to 75-26-19 (1991); MO. ANN. STAT. §§ 417.450-.467 (West 1995); MONT. CODE ANN. §§ 30-14-401 to 30-14-409 (1997); NEB. REV. STAT. §§ 87-501 to 87-507 (1994); NEV. REV. STAT. §§ 600A.010-.100 (1991); N.H. REV. STAT. ANN. §§ 350-B:1-B:9 (1995); N.M. STAT. ANN. §§ 57-3A-1 to 57-3A-7 (Michie 1998); N.C. GEN. STAT. §§ 66-152 to 66-157 (1997); N.D. CENT. CODE §§ 47-25.1-01 to 47-25.1-08 (1993); OHIO REV. CODE ANN. §§ 1333.61-.69 (Banks-Baldwin 1994); OKLA. STAT. tit. 78, §§ 85-94 (1991); OR. REV. STAT. §§ 646.461-.475 (1993); R.I. GEN. LAWS §§ 6-41-1 to 6-41-11 (1992); S.C. CODE ANN. §§ 39-8-10 to 39-8-130 (Law. Co-op. 1997); S.D. CODIFIED LAWS §§ 37-29-1 to 37-29-11 (Michie 1994); UTAH CODE ANN. §§ 13-24-1 to 13-24-9 (1996); VT. STAT. ANN. tit. 12, § 523 (1996); VA. CODE ANN. §§ 59.1-336 to 59.1-343 (Michie 1992); WASH. REV. CODE ANN. §§ 19.108.010-.940 (West 1989); W. VA. CODE §§ 47-22-1 to 47-22-10 (1996); WIS. STAT. ANN. § 134.90 (West 1989).

<sup>144</sup> States that have adopted the 1979 Act with modifications include Alaska, Arkansas, Connecticut, Delaware, Kansas, Idaho, Indiana, Louisiana, Montana, and Washington. Those that have followed the 1985 model with modifications are Colorado, District of Columbia, Florida, Hawaii, Maine, Maryland, Minnesota, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, Rhode Island, South Dakota, Utah, Virginia, West Virginia, and Wisconsin. A few states have incorporated portions of both the 1979 and the 1985 versions of the Act, and two states have almost completely overhauled the UTSA. See Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States' Response*, 24 CREIGHTON L. REV. 49, 51-52 (1990).

<sup>145</sup> For a detailed discussion of the different states' modifications of the UTSA, see *id.*; 1 JAGER, *supra* note 6, § 3.05[3].

<sup>146</sup> See Joseph E. Root & Guy M. Blynn, *Abandonment of Common-Law Principles: The North Carolina Trade Secrets Protection Act*, 18 WAKE FOREST L. REV. 823 (1982).

<sup>147</sup> See Thad G. Long, *The Alabama Trade Secrets Act*, 18 CUMB. L. REV. 557 (1987).

### 3. *Material Differences Between the Restatement and the Uniform Trade Secrets Act*

Because several significant commercial states have chosen to continue to rely on the Restatement rather than enact the UTSA, it is important to examine the material differences between these models.<sup>148</sup>

#### a. *Continuous Use By the Owner*

A major distinction between the Restatement and the UTSA is that the former confers trade secret status only on information that is in *continuous use* by the owner in business, while the latter imposes no such condition.<sup>149</sup> Under the Restatement, a trade secret is defined as "information which is *used in one's business*, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it," and as "a process or device for *continuous use* in the operation of the business."<sup>150</sup> This restrictive definition effectively denies trade secret protection for information relating to "single or ephemeral" events that are nonetheless valuable and secret, such as the terms of secret bids and impending business announcements.<sup>151</sup> It also leaves unprotected secret information that an

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<sup>148</sup> For a detailed comparison of the UTSA and Restatement provisions, see Klitzke, *supra* note 108.

<sup>149</sup> Other differences in the Restatement's and the UTSA's definitions of the term "trade secret" include the UTSA's addition of "information," "program," "method," and "technique" to the list of what might constitute a trade secret. Comments to the Restatement explain that "method" and "technique" were included to clarify that "know-how" fits within the definition. See UTSA § 1 cmt., 14 U.L.A. 433, 439 (1985).

<sup>150</sup> RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (emphasis added).

<sup>151</sup> See, e.g., *Hudson Hotels Corp. v. Choice Hotels Int'l*, 995 F.2d 1173, 1177 (2d Cir. 1993) (finding that a new concept must be used continuously in commerce to be protectable as a trade secret); *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 298 (2d Cir. 1986) (denying protection because of a lack of continuing use of the secret by the owner); *Richter v. Westlab, Inc.*, 529 F.2d 896, 900 (6th Cir. 1976) (denying trade secret protection to a marketing concept or new production idea because it did not create a continuing competitive advantage but merely a temporary advantage that would disappear once the idea is implemented); *Kendall/Hunt Publ'g. Co. v. Rowe*, 424 N.W.2d 235, 246 (Iowa 1988) (denying trade secret protection for an "ephemeral" list of names); *Wisconsin Elec. Power Co. v. Public Serv. Comm'n.*, 329 N.W.2d 178, 182 (Wis. 1983) (emphasizing the "continuous use" requirement in narrowly interpreting the term "trade secret" in a criminal statute).

This limitation does not mean, however, that information not continuously used by the owner is completely unprotected by law. Section 759 of the *Restatement (First) of Torts* provides that "[o]ne who, for the purpose of advancing a rival business interest, procures by improper means information about another's business is liable to the other for the harm caused by his possession, disclosure or use of the information." RESTATEMENT (FIRST) OF TORTS § 759 (1939). However,

innovator has not had an opportunity to exploit,<sup>152</sup> as well as negative information, *i.e.* information about what *not* to do.<sup>153</sup>

The UTSA rejects the Restatement's continuous use requirement and explicitly extends trade secret protection to information (of actual or potential economic value) that the owner has not yet used or that is valuable only from a negative perspective.<sup>154</sup> The difference between the Restatement's and the UTSA's treatment of negative know-how is particularly significant in a complex economy because information derived from painstaking research about what is infeasible or inefficient could well prove as advantageous to a business as positive information.

### b. *Wrongful Acquisition and Subsequent Use or Disclosure*

Another important distinction between the Restatement and the UTSA is that a defendant's improper acquisition of a trade secret, absent subsequent use or disclosure, is independently actionable under the UTSA but not under the Restatement.<sup>155</sup> In the notable case of *Metallurgical Indus., Inc. v. Fourtek*,<sup>156</sup> a

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the protection afforded such information under section 759 is more limited than the broader protection for trade secrets under section 757 of the Restatement. See Edmund W. Kitch, *The Expansion of Trade Secrecy Protection and the Mobility of Management Employees: A New Problem For the Law*, 47 S.C. L. REV. 659, 661–62 (1996) (explaining § 759 and comparing it with the more expansive § 757).

<sup>152</sup> See UTSA § 1 cmt. (noting that in removing the “continuous use” requirement, the UTSA “extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use”).

<sup>153</sup> See *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 899 (5th Cir. 1981) (denying plaintiff's trade secret misappropriation claim partly because the information claimed to be a trade secret provided only “what not to do” input to the company); *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 260 n.6 (E.D. La. 1967) (expressing doubt that negative information is protectable).

<sup>154</sup> See UTSA, § 1 cmt. (eliminating the “use” condition to protect information that a trade secret owner has not yet had an opportunity to use and protecting “information that has commercial value from a negative viewpoint for example the results of lengthy and expensive research which proves that a certain process will *not* work”). See, e.g., *Gillis Assoc. Indus. v. Cari-All, Inc.*, 564 N.E.2d 881, 884 (Ill. App. Ct. 1990) (using the trade secret definition found in the UTSA as adopted by Illinois); *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 585 (Md. Ct. App. 1991) (stating that the Maryland statute's definition of trade secret is broader than that of the Restatement); *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 674 n.2 (Wash. 1987) (applying the UTSA definition of trade secret).

The new Restatement provisions on trade secrets, consistent with the UTSA, also reject the original Restatement's use requirement. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 & cmt. d (1995) (“The definition [of trade secret] adopted in this Section [consistent with the UTSA] contains no requirement that the information afford a continuous or long-term advantage.”).

<sup>155</sup> Compare RESTATEMENT (FIRST) OF TORTS § 757 (1939) (“One who *discloses or uses* another's trade secret, without a privilege to do so, is liable to the other if . . .”), with UTSA § 1(2)

defendant had knowingly purchased equipment embodying trade secrets improperly taken from the plaintiff, but had not yet used the equipment. Because improper acquisition is not independently actionable under the Restatement, the defendant escaped liability.<sup>157</sup> Had the UTSA been applicable, the outcome would have been different.<sup>158</sup>

### c. *Subsequent Knowledge of Misappropriation*

Under the Restatement, a person who innocently acquires a trade secret and thereafter learns that the original acquisition was improper (or a mistake) is *not* liable even for subsequent use or disclosure if she, in good faith, paid value for the information or otherwise substantially changed her position prior to her receipt of notice.<sup>159</sup> The UTSA, on the other hand, affords decidedly more protection to the owner of the trade secret. Under the UTSA, a person who continues to use or disclose a trade secret *after* learning of the initial improper acquisition is subject to liability, even if she paid value for the secret or had substantially changed her position prior to the receipt of notice.<sup>160</sup>

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("Misappropriation" means: (i) *acquisition* of a trade secret . . . by improper means; or (ii) disclosure or use of a trade secret of another without express or implied consent by a person who . . .") (emphasis added). See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 & cmt. b (1995) (explaining that the *Restatement (First) of Torts* imposed liability only for wrongful use or disclosure of a another's trade secret but not for its independent, improper acquisition, and stating that § 40 of the new Restatement, consistent with the UTSA, changes that rule).

<sup>156</sup> 790 F.2d 1195 (5th Cir. 1986).

<sup>157</sup> See *id.* at 1205; see also *Hurst*, 634 F.2d at 899 (finding, under Texas law, that negative information did not qualify as a trade secret or, alternatively, that the benefits defendant derived from it were insufficient *use* for liability to attach).

<sup>158</sup> See *Minuteman, Inc. v. Alexander*, 434 N.W.2d 773, 778 (1989) (stating that improper acquisition of a trade secret qualifies as a misappropriation); *Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 310 (Minn. App. 1987).

<sup>159</sup> See RESTATEMENT (FIRST) OF TORTS § 758(b) (1939).

<sup>160</sup> See, e.g., *Forest Lab., Inc. v. Pillsbury Co.*, 452 F.2d 621, 626 (7th Cir. 1971) (stating that a defendant who learns of its unauthorized possession of another's trade secret after a period of innocent use is liable for any subsequent use). The new Restatement on trade secrets is consistent with the UTSA on this point. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(b)(2)–(b)(4) & cmt. d (1995) (stating, without qualification, that once a third party receives the requisite knowledge, she is subject to liability for subsequent use and disclosure).

However, the fact that an innocent person paid value or substantially changed her position prior to learning of the improper acquisition has a bearing on whether injunctive remedy is granted. See UTSA § 2(b) (permitting the court to substitute payment of a reasonable royalty in lieu of injunctive relief in "exceptional circumstances"); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. d (1995) (stating that "although receipt of requisite knowledge is sufficient to subject the actor to liability for subsequent conduct, the relief available to the trade secret owner may be

#### d. *Statute of Limitations*

The Restatement makes no recommendation for a limitations period for trade secret misappropriation, leading states to set their own rules.<sup>161</sup> For example, Texas, a Restatement state, has a two-year limitation period which, its Supreme Court recently held, begins to run upon the act of misappropriation, not when the misappropriation was discovered or should have been discovered.<sup>162</sup> In contrast, the UTSA has a three-year statutory period which begins to run only when the misappropriation is discovered or should have been discovered.<sup>163</sup>

#### 4. *Examples of Statutory Variations Among States Adopting the UTSA*

Even among states that have adopted the UTSA, variations exist to the extent that each state's statutory scheme modifies the uniform law.<sup>164</sup> In fact, the trade secret statutes of Alabama and North Carolina differ substantially from the UTSA, with Alabama providing much less protection<sup>165</sup> and North Carolina more

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limited by the equities of the case").

<sup>161</sup> It should be noted that Restatements do not, as a general rule, include statutes of limitation which are, by definition, acts of legislatures and not the type of judicial common law that one expects to be "restated" in Restatements.

<sup>162</sup> See *Computer Assocs. Int'l v. Altai Inc.*, 918 S.W.2d 453, 458 (Tex. 1996) (holding that, under Texas law, the discovery rule exception tolling the statute of limitations does not apply in trade secret misappropriation cases); Ian C. Ballon, *Intellectual Property Protection and Related Third Party Liability*, 482 PLI/PAT 559, 630 (June 1997) (noting that the *Computer Associates* holding rejected the law in force in 39 other states).

<sup>163</sup> See UTSA § 6.

The UTSA also rejects a line of common law cases that followed the "continuing wrong" theory, or the notion that each day of trade secret misuse extends the wrong and starts the running of a new statutory period. See UTSA § 6 & cmt. ("The Act rejects a continuing wrong approach to the statute of limitations . . ."); *Ashton-Tate Corp. v. Ross*, 916 F.2d 516, 523-24 (9th Cir. 1990) (holding that a later unauthorized use of a trade secret does not extend the limitation period). For examples of cases that followed the continuing wrong theory, see, e.g., *Underwater Storage Inc. v. U.S. Rubber Co.*, 371 F.2d 950, 955 (D.C. Cir. 1966) (adhering to a continuing wrong approach); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 426 (E.D. Pa. 1980) (stating that the statute of limitations commences to run anew with each wrongful use); *McCormack & Dodge Corp. v. ABC Management Sys., Inc.*, 222 U.S.P.Q. 432, 444 (Wash. Super. Ct. 1983) (holding that each unauthorized use of a trade secret is an independent misappropriation under the Act which starts the running of a new limitation period).

<sup>164</sup> One commentator reports that only one state, Rhode Island, has adopted the UTSA (1985 version) without any modification. See Samuels & Johnson, *supra* note 144, at 52.

<sup>165</sup> See ALA. CODE §§ 8-27-1 to 8-27-6 (1993). For a detailed explanation of the Alabama Trade Secrets Act, see Long, *supra* note 147.

protection than the UTSA.<sup>166</sup> Below is a discussion of some of the more significant state variances.<sup>167</sup>

a. *Definition of Trade Secret*

Several states have materially altered the UTSA's definition of trade secret. The Alabama Trade Secrets Act, for example, narrows the definition considerably, leaving more information unprotected than under the UTSA. Neither Alabama's statutory requisite of "intention to use the secret in trade or business,"<sup>168</sup> nor its requirement that information be "*embodied* in a formula, pattern, compilation, computer software, drawing, device, method, technique, or process"<sup>169</sup> has any counterpart in the UTSA.<sup>170</sup> The "intention to use" requirement effectively denies trade secret status for negative information, while the "embodiment" requirement disqualifies abstract ideas and information from trade secret status unless they are reduced to physical form.<sup>171</sup>

California and Colorado, on the other hand, appear to expand the UTSA's scope of protection. Under the UTSA, information that is "readily ascertainable by proper means" would not constitute a trade secret<sup>172</sup> on the theory that such information could hardly be considered secret. California's trade secret statute eliminates the "readily ascertainable" language,<sup>173</sup> thereby opening up trade secret status to even information that is easily ascertained using proper means. Colorado almost completely rejects the UTSA's definition of trade secret and instead bases its determination on whether the trade secret owner has "taken measures to prevent

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<sup>166</sup> See N.C. GEN. STAT. §§ 66-152 to 66-157 (1997). For detailed analysis of the North Carolina Trade Secrets Act, see Root & Blynn, *supra* note 146. Additionally, South Carolina recently replaced its original version of the UTSA with a new version which deviates more substantially from the UTSA by providing greater trade secret protection. See S.C. CODE ANN. §§ 39-9-10 to 39-9-130 (Law. Co-op. 1985 & Supp. 1997); Mark V. Thigpen, Note, *A New Age of Discovery: Your Trade Secrets are Safe in South Carolina*, 49 S.C. L. REV. 615 (1997); Kirk T. Bradley, Note, *Employees Beware: Employer Rights Under the South Carolina Trade Secrets Act*, 49 S.C. L. REV. 597 (1997).

<sup>167</sup> It is not the purpose of this Article to provide a complete catalog of all of the state changes to the UTSA. For an extended discussion of those modifications, see Samuels & Johnson, *supra* note 144; 1 JAGER, *supra* note 6, § 3.05[3].

<sup>168</sup> ALA. CODE § 8-27-2(1) (1993).

<sup>169</sup> *Id.* (emphasis added).

<sup>170</sup> See UTSA § 1(4), 14 U.L.A. 433, 438 (1985).

<sup>171</sup> Another deviation is that the secret must have "significant" economic value under the Alabama Trade Secret Act, in contrast to the UTSA's mere "independent economic value" standard. See ALA. CODE § 8-27-2(1) (1993); UTSA § 1(4)(i).

<sup>172</sup> See UTSA § 1(4)(i).

<sup>173</sup> See CAL. CIV. CODE § 3426.1(d)(1) (West 1997).

the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.”<sup>174</sup> South Carolina’s recently enacted Trade Secret Act also augments the UTSA’s definition of trade secrets by providing that even “minor or simple” trade secrets can be protected if they, collectively, “can make a substantial difference” in efficiency or may be the basis of a business strategy.<sup>175</sup>

b. *Definition of Misappropriation*

Under the Alabama act, there is no recourse whatsoever against a third party who had no initial notice of an earlier misappropriation but who subsequently receives such notice.<sup>176</sup> In contrast, under the UTSA, even innocent recipients of trade secrets are subject to liability for use or disclosure *after* they know or should have known that the information was a trade secret that was originally acquired wrongfully (or disclosed by mistake or in breach of confidence).<sup>177</sup>

The North Carolina Trade Secret Act, on the other hand, defines misappropriation more broadly than the UTSA. It eliminates the concept of “improper means” and finds misappropriation whenever a trade secret is acquired, disclosed, or used “without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.”<sup>178</sup> This language would condemn an unauthorized use of a trade secret even if the user neither used improper means of acquisition herself nor knew (nor had reason to know) that the information was initially acquired improperly.<sup>179</sup> South Carolina’s Trade Secret Act includes a provision, not found in the UTSA or in the legislation of any other state, specifically addressing trade secret misappropriation in the employer-employee context.<sup>180</sup>

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<sup>174</sup> COLO. REV. STAT. § 7-74-102(4) (1997).

<sup>175</sup> See S.C. CODE ANN. § 39-8-20(5)(b) (Law. Co-op. 1985 & Supp. 1997).

<sup>176</sup> See ALA. CODE § 8-27-3 cmt. (1993) (stating that “proper appropriation without notice of an earlier misappropriation cannot be misappropriation under the statute even if subsequent notice is given”).

<sup>177</sup> See UTSA § 1(2)(ii).

<sup>178</sup> N.C. GEN. STAT. § 66-152(1) (1997).

<sup>179</sup> See Root & Blynn, *supra* note 146, at 835.

<sup>180</sup> See S.C. CODE ANN. § 39-8-30 (Law. Co-op. 1985 & Supp. 1997).

*c. Other Differences*<sup>181</sup>

Under the UTSA, actual or threatened misappropriation may be enjoined, but only for as long as the secrecy exists plus an additional "lead time" to eliminate the misappropriator's advantage.<sup>182</sup> In exceptional circumstances, the court may order the payment of royalties in lieu of injunctive relief.<sup>183</sup> Many states have extensively changed these provisions,<sup>184</sup> creating substantial inconsistencies.<sup>185</sup> The compensatory damage provisions of the UTSA, as strengthened by the 1985 amendments, have likewise been radically altered by a number of states.<sup>186</sup>

On the issue of exemplary damages, the UTSA authorizes an award of exemplary damages not exceeding twice the compensatory amount in cases of "willful and malicious misappropriation."<sup>187</sup> Deviations from the UTSA model range from some states setting no limit on the award<sup>188</sup> to other states eliminating the provision altogether.<sup>189</sup> With respect to attorneys' fees, the UTSA allows the

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<sup>181</sup> This subsection, which deals mostly with issues of remedy, is included in the interest of covering all major statutory variations among states that have adopted the UTSA. The case for a uniform federal trade secrets law focuses primarily on the effect of a non-uniform law on primary conduct, and I recognize that procedural rules probably do not have as much impact on primary conduct as substantive law.

<sup>182</sup> See UTSA § 2(a).

<sup>183</sup> See UTSA § 2(b). The words "in exceptional circumstances" were added to the section in the 1985 amendments because critics claimed that without the limiting language, courts had too much discretion to order what is essentially a compulsory license instead of issuing an injunction.

<sup>184</sup> See Samuels & Johnson, *supra* note 144, at 70-75 (describing in detail the states' specific deviations on injunctive relief). For example, Alabama eliminates §§ 2(b) and 2(c) of the UTSA completely. See ALA. CODE § 8-27-4(1) (1993). Colorado, which does not address compelled royalty payments at all, does not provide standards for continuing an injunction. See COLO. REV. STAT. § 7-74-103 (1997). North Carolina changes the language of the section completely and apparently applies a more liberal standard in granting injunctive relief. See N.C. GEN. STAT. § 66-154 (1997). Illinois increases the discretion of the court in decisions to terminate an injunction. See 765 ILL. COMP. STAT. ANN., 1065/2 (West 1993).

<sup>185</sup> See D. Kirk Jamieson, *Just Deserts: A Model to Harmonize Trade Secret Injunctions*, 72 NEB. L. REV. 515, 547-67 (1993) (suggesting a new model to harmonize trade secret injunctive relief).

<sup>186</sup> See Samuels & Johnson, *supra* note 144, at 75-83.

<sup>187</sup> UTSA § 3(b).

<sup>188</sup> See, e.g., MONT. CODE ANN. § 30-14-404 (1997); N.C. GEN. STAT. § 66-154 (1997). In North Carolina, the authority to order exemplary damages lies with the jury, not the judge as in the UTSA. See N.C. GEN. STAT. § 66-154 (1997).

<sup>189</sup> See, e.g., ARK. CODE ANN. § 4-75-606 (Michie 1991); LA. REV. STAT. ANN. § 51:1433 (West 1987); NEB. REV. STAT. § 87-504 (1994). In Alabama and Colorado, exemplary damages may not exceed the amount of the compensatory award. See ALA. CODE § 8-27-4 (1993); COLO. REV. STAT. § 7-74-104 (1997). However, Alabama also sets a floor of \$5,000 for exemplary



award of reasonable attorney's fees to the prevailing party in egregious cases.<sup>190</sup> At least a few states have excluded this UTSA section from their state versions.<sup>191</sup>

Finally, on the statute of limitations, the UTSA sets a 3-year period that begins to run when the misappropriation "is discovered or by the exercise of reasonable diligence should have been discovered."<sup>192</sup> Several states have altered this provision, with some states adopting a longer period and one state a shorter period.<sup>193</sup>

Beyond the express statutory variations, jurisdictions sometimes interpret differently even identical elements in the states' statutes. For example, disagreements exist as to the meaning of improper means,<sup>194</sup> the appropriate standards for evaluating requests for injunctive relief,<sup>195</sup> and the level of security precautions required of the trade secret owner to satisfy the secrecy requirement.<sup>196</sup> In short, the differences between the Restatement and the UTSA, the various state modifications to the UTSA, and the interpretational differences of even identical state provisions are responsible for the lack of uniformity in trade secrets law.

### *B. The Importance of Trade Secrets to Interstate Commerce*

The importance of trade secrets law to interstate business has long been recognized and is undisputed. In fact, the UTSA was drafted in 1979 largely in response to concerns about having a non-uniform law govern an area so significant to interstate commerce.<sup>197</sup> Unfortunately, the UTSA fell short of its goal of unifying the law,<sup>198</sup> even while trade secrecy began assuming a more integral role in the

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damages if they are awarded. *See* ALA. CODE § 8-27-4 (1993).

<sup>190</sup> *See* UTSA § 4.

<sup>191</sup> *See, e.g.*, ALASKA STAT. §§ 45.50.910 to 45.50.940; IDAHO CODE §§ 48-801 to 48-807; NEB. REV. STAT. §§ 87-501 to 87-507.

<sup>192</sup> UTSA § 6.

<sup>193</sup> The Maine and Nebraska acts provide a four-year statute of limitations, and Illinois has a five-year period. *See* ME. REV. STAT. ANN. tit. 10, § 1547 (West 1997); NEB. REV. STAT. § 87-506 (1994); 765 ILL. COMP. STAT. ANN. 1065/7 (West 1993). The Alabama act provides a shorter statute of limitations of 2 years. *See* ALA. CODE § 8-27-5 (1993).

<sup>194</sup> *See* MICHAEL A. EPSTEIN, MODERN INTELLECTUAL PROPERTY § 2.04[A] (3d ed. 1995).

<sup>195</sup> *See* 1 JAGER, *supra* note 6, § 7.02 (noting the different approaches to injunctions).

<sup>196</sup> *See* Note, *Trade Secret Misappropriation: A Cost-Benefit Response to the Fourth Amendment Analogy*, 106 HARV. L. REV. 461, 463-64 (1992) (discussing the requirement of reasonable security precautions).

<sup>197</sup> *See* UTSA prefatory note, 14 U.L.A. at 434 ("Notwithstanding the commercial importance of trade secret law to interstate business, this law has not developed satisfactorily.").

<sup>198</sup> The UTSA has been unable to replicate the degree of uniformity that the Uniform Commercial Code (UCC) has achieved because, unlike the UCC, the UTSA has not been adopted by all the states, and even the adopting states often substantially modified the Act prior to

intellectual property system and trade secret misappropriation became more of a national problem with interstate and sometimes international ramifications.<sup>199</sup>

Trade secret issues increasingly implicate many states, partly because proprietary information is often ephemeral with no set location. They can "exist" wherever the information is used or wherever a person who knows about it is located.<sup>200</sup> For companies with multistate operations, their trade secrets may exist in every state in which they do business and may be vulnerable to misappropriation in each such state. In fact, with the emergence of new electronic media, such as e-mail and the internet, proprietary information is susceptible to misappropriation not merely in the companies' states of operation, but in every other state and sometimes in other countries.<sup>201</sup> Even a cursory look at relevant case law confirms that trade secret cases generally have multistate connections and impact.<sup>202</sup>

Congress apparently recognized this fact when it passed the Economic Espionage Act of 1996 (EEA),<sup>203</sup> a federal law criminalizing trade secret thefts.<sup>204</sup>

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enactment.

<sup>199</sup> See S. REP. NO. 104-359, at 5-6 (1996).

<sup>200</sup> See Pace, *supra* note 8, at 446.

<sup>201</sup> See *House Comm. Hearing on EEA, supra* note 87 (statement of Thomas W. Brunner, U.S. Chamber of Commerce) (commenting that misappropriation of trade secrets today is less likely to occur in the "traditional manner," but will increasingly be undertaken from "remote locations, even internationally"); see also Andrews, *supra* note 86 and accompanying text (describing the GM/Lopez-Volkswagen misappropriation case); Jager & Cook, *supra* note 86 and accompanying text (discussing same); Stern & Mitchner, *supra* note 86 and accompanying text (discussing same).

<sup>202</sup> See *infra* notes 218, 223, 225, 227.

<sup>203</sup> 18 U.S.C. §§ 1831-1839 (1994 & Supp. III 1997). The EEA has two primary thrusts. First, it penalizes trade secret theft by or for the benefit of a foreign government or entity with fines up to \$10 million and imprisonment of up to 15 years. See *id.* § 1831. Second, it penalizes ordinary trade secret thefts involving domestic concerns with fines up to \$5 million and imprisonment of up to 10 years. See *id.* § 1832.

<sup>204</sup> The EEA defines the term "trade secret" to mean:

(3) . . . all forms and types of financial business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.

*Id.* § 1839(3).

The bill was passed after Louis Freeh, the Director of the Federal Bureau of Investigation, and industry leaders testified before the House and Senate on the magnitude of the national problem created by trade secret misappropriation and on its economic cost to the nation.<sup>205</sup> The legislative history of the EEA includes specific findings of a close nexus between trade secrets and interstate and foreign commerce.<sup>206</sup>

In recommending passage of the EEA, a Senate committee noted that development of trade secrets “involves every aspect of interstate commerce and business” and is critical to the health of interstate commerce. The committee also noted that trade secrets either move in or substantially affect interstate commerce, and the theft of trade secrets substantially harms interstate commerce.<sup>207</sup> The

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The theft of a trade secret is committed if someone “knowingly—

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret;

(3) receives, buys, or possess a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;

(4) attempts to commit any offense described in any of the paragraphs (1) through (3);

or

(5) conspires with one or more other persons to commit any offense described in any of paragraphs (1) through (3), and one or more of such persons do act to affect the object of the conspiracy.

*Id.* §§ 1831(a)(1)–(a)(5), 1832(a)(1)–(a)(5).

<sup>205</sup> See *Senate Comm. Hearing on EEA*, *supra* note 33 (statements of FBI Director Freeh; Raymond Damadian, Fonmar Corp.); *House Comm. Hearing on EEA*, *supra* note 87 (statements of FBI Director Freeh; Thomas W. Brunner, U.S. Chamber of Commerce; John P. Melton, SDL, Inc.; Peter F. McCloskey, Electronic Industries Assoc.; David M. Shannon, Intel Corp.; Dan Whiteman, General Motors Corp.).

Although the hearings seemed to focus on foreign rather than domestic economic espionage, Congress stressed that the economic cost of domestic trade secret misappropriation was also high. See S. REP. NO. 104-359, at 8–9 (1996) (describing reports of domestic trade secret thefts). In fact, the EEA covers trade secret thefts not only by foreign governments and companies, but also by domestic concerns as well. See 18 U.S.C. § 1832.

<sup>206</sup> See S. REP. NO. 104-359, at 1–2 (1996).

<sup>207</sup> See *id.* The Report stated:

#### Section 2 Findings and Purposes.

(a) Findings. Congress finds that

(1) sustaining a healthy and competitive national economy is imperative;

(2) the development and production of proprietary economic information involves every aspect of interstate commerce and business;

committee then concluded that a comprehensive federal criminal law on trade secret misappropriation was essential because of the national scope of the problem and the inadequacy of the state laws.<sup>208</sup> These committee findings of strong linkage between trade secrets and interstate and foreign commerce, which supported enactment of the EEA, should likewise justify federal civil trade secrets legislation.<sup>209</sup>

Although Congress stressed only the economic toll that trade secrets loss takes on interstate commerce, there is a nexus between trade secrets law and interstate and foreign commerce in other ways as well. An overly broad trade secrets law, for example, may result in too much information being removed from the public domain and a lessening of competition, which obviously impacts interstate commerce. In other words, not only under-protection, but over-protection of trade secrets, can have substantial adverse consequences for interstate commerce.

### C. Complexity of Choice of Law Problems

The frequent multistate relationships in trade secret cases, and the lack of a

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(3) the development, production, protection, and lawful exchange, sale, and transfer of proprietary economic information is essential to maintaining the health and competitiveness of interstate commerce and the national economy;

(4) much proprietary economic information moves in interstate and foreign commerce and proprietary economic information that does not move in interstate or foreign commerce directly and substantially affects proprietary economic information that does;

(5) the theft, wrongful destruction or alteration, misappropriation, and wrongful conversion of proprietary economic information substantially affects and harms interstate commerce . . . .

(6) enforcement of existing state laws protecting proprietary economic information is frustrated by the ease with which stolen or wrongfully appropriated proprietary economic information is transferred across State and national boundaries.

*Id.*

<sup>208</sup> See *id.* at 11.

<sup>209</sup> There are limits to the usefulness of the EEA. As a criminal statute, the EEA requires proof beyond a reasonable doubt, which may be difficult to establish in some cases. Furthermore, although the EEA theoretically covers all intentional thefts of trade secrets, Congress clearly intended it to be enforced sparingly. Each case must receive the prior approval and subsequent close supervision of either the Attorney General, Deputy Attorney General, or the Assistant Attorney General for the Criminal Division. See JAGER, *supra* note 6, app. P, at 46-47 (explaining that the original version of the EEA expressly provided that all prosecutions under the statute receive the prior approval of one of these top three criminal enforcers; the provision was omitted in the final bill only after Attorney General Janet Reno assured Congress in writing that the safeguards would be implemented as internal policy and that the policy requirements would be inserted into the U.S. Attorney's Manual). Hence, as a practical matter, the EEA is likely to be used only against trade secret thefts of national significance.

uniform law, lead to a related problem involving choice of law issues. Choice of law is necessary whenever a legal dispute implicates the differing substantive laws of more than one state.<sup>210</sup> In an information-based economy, trade secrets may be located, improperly taken, misused, or wrongfully disclosed in a multitude of states, thereby posing conflict of law problems in an increasing number of cases.

It is, of course, well established that there is no general federal common law<sup>211</sup> and, therefore, a federal court sitting in diversity must follow the choice of law rules prevailing in the forum state.<sup>212</sup> Two choice of law doctrines generally govern in tort actions: the traditional *lex loci delicti* rule and the modern significant relationship approach.<sup>213</sup> *Lex loci delicti*, articulated in the *Restatement (First) of*

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<sup>210</sup> Choice of law is not to be confused with personal jurisdiction. A court may have personal jurisdiction over a defendant because the defendant was physically present within the state or had sufficient contacts with the state to satisfy considerations of fair play and substantial justice. See *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945). Yet, the court may be obligated by its own choice of law rules to apply the substantive law of another state to the claim. Conversely, a defendant may not have had sufficient contacts with the forum state to be subject to its personal jurisdiction, even though the forum state, under its choice of law rules, may properly apply its own substantive laws to the controversy. On the difference between personal jurisdiction and choice of law, see *Hanson v. Denckla*, 357 U.S. 235, 254 (1958) ("The issue [in the case] is personal jurisdiction, not choice of law."). Interestingly, and perhaps counter-intuitively, the federal constitution more severely restricts a state's exercise of personal jurisdiction than its choice of law. See, e.g., *Allstate Ins. Co. v. Hague*, 449 U.S. 302 (1981); Linda J. Silberman, Shaffer v. Heitner: *The End of an Era*, 53 N.Y.U. L. REV. 33, 82-83 (1978).

<sup>211</sup> See *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78 (1938).

<sup>212</sup> See *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487, 486 (1941). *Klaxon*, of course, has been heavily criticized as unnecessary under the Constitution and an unwarranted extension of the *Erie* doctrine into choice of law. See, e.g., William F. Baxter, *Choice of Law and the Federal System*, 16 STAN. L. REV. 1, 22-42 (1963); Harold W. Horowitz, *Toward A Federal Common Law of Choice of Law*, 14 UCLA L. REV. 1191 (1967); Harold L. Korn, *The Choice-of-Law Revolution: A Critique*, 83 COLUM. L. REV. 772, 971 (1983); Russell J. Weintraub, *The Erie Doctrine and State Conflict of Law Rules*, 39 IND. L.J. 228, 246-48 (1964).

<sup>213</sup> For an overview of the different choice of law approaches, see Jeffrey M. Shaman, *The Vicissitudes of Choice of Law: The Restatement (First, Second) and Interest Analysis*, 45 BUFF. L. REV. 329 (1997); Symeon C. Symeonides, *Choice of Law in the American Courts in 1995: A Year in Review*, 44 AM. J. COMP. L. 181 (1996).

In addition to *lex loci delicti* and the significant relationship test, there is a third approach—the government interest analysis—which a few states apply. The government interest analysis calls for examining the underlying policies of the substantive laws of each implicated state and assessing if each state has a real interest in having its law chosen. If the analysis shows that only one state, in fact, has an interest which would be compromised were its laws not applied, there is a "false conflict," and the law of the state truly interested in the dispute would be applied. If there is a true conflict, i.e., more than one state has a real interest, then the government interest doctrine calls for applying the law of the forum. See LEA BRILMAYER, *CONFLICT OF LAWS: FOUNDATIONS AND FUTURE DIRECTIONS* 58-62 (1991); BRAINERD CURRIE, *SELECTED ESSAYS ON THE CONFLICT*

*Conflict of Laws*, requires applying the law of the place where the wrong occurred.<sup>214</sup> It was the dominant approach before the 1960s, and it continues to be followed in ten to twelve jurisdictions,<sup>215</sup> despite harsh criticism of the rule for its formalism and inflexibility.<sup>216</sup> In trade secret cases, the approach means applying the law of the state where the defendant committed the alleged wrong, or benefited from it.<sup>217</sup> Characterizing and ascertaining where a wrong was committed can be difficult in trade secret cases because events are often not discrete phenomena occurring neatly in one jurisdiction. Furthermore, the jurisdiction where the alleged wrong took place may be different from the jurisdiction where a defendant derived a benefit, such as where a defendant takes a trade secret in one state but profits from it in others.<sup>218</sup>

Enjoying wider judicial acceptance than *lex loci delicti* is the newer "significant relationship" rule proposed in the *Restatement (Second) of Conflict of Laws*.<sup>219</sup> This

OF LAWS 183–84 (1963); Larry Kramer, *Rethinking Choice of Law*, 90 COLUM. L. REV. 277 (1990).

Variations of the government interest rule include applying the law of the state whose interests would be most impaired if its law were not chosen, or applying the "better law," instead of the law of the forum. See Baxter, *supra* note 212, at 42 (proposing the comparative impairment variation); Robert Leflar, *Conflicts Law: More Choice-Influencing Considerations*, 54 CAL. L. REV. 1584, 1587–88 (1966) (suggesting the "better law" variation).

<sup>214</sup> See RESTATEMENT (FIRST) OF CONFLICT OF LAWS §§ 377–379 (1934).

<sup>215</sup> Professor Symeonides' study shows that twelve states follow the traditional *lex loci delicti* rule in tort cases (ten states adopt it in contract cases). They are Alabama, Georgia, Kansas, Maryland, Montana, New Mexico, North Carolina, South Carolina, Vermont, Virginia, West Virginia, and Wyoming. See Symeonides, *supra* note 213, at 197–98.

<sup>216</sup> See, e.g., CURRIE, *supra* note 213 (going beyond mere criticism to propose a new construct—the "government interest" analysis); David F. Cavers, *A Critique of the Choice-of-Law Problem*, 47 HARV. L. REV. 173 (1933); Elliott E. Cheatham, *American Theories of Conflict of Laws: Their Role and Utility*, 58 HARV. L. REV. 361 (1945); Walter W. Cook, *The Logical and Legal Bases of the Conflict of Law*, 33 YALE L.J. 457 (1924); Hessell E. Yntema, *The Hornbook Method and the Conflict of Laws*, 37 YALE L.J. 468 (1928).

<sup>217</sup> See, e.g., *Wilson v. Electro Marine Sys., Inc.*, 915 F.2d 1110, 1115 (7th Cir. 1990); *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1225 (7th Cir. 1982); *Smith v. Dravo Corp.*, 203 F.2d 369, 373 (7th Cir. 1953); see also 1 JAGER, *supra* note 6, § 4.02[3].

<sup>218</sup> See, e.g., *Franke v. Wiltschek*, 209 F.2d 493, 494–95 (2d Cir. 1953) (involving a confidential relationship arising in New Jersey, defendant's improper use of the trade secret in Massachusetts, and the sale of the product incorporating the misappropriated trade secret in New York and other states); *Connecticut Aircraft Corp. v. Smith*, 574 F. Supp. 626, 628–30 (D. Conn. 1983) (involving disclosure of the trade secret in a series of telephone calls between Connecticut and Florida, and the misuse of the secret in Florida); *CPG Prods. Corp. v. Mego Corp.*, 214 U.S.P.Q. (BNA) 206, 212 (S.D. Ohio 1981) (involving the planning of the misappropriation in New York, the physical transmittal of the trade secret in Ohio, and defendant's misuse of the secret in New York).

<sup>219</sup> See § 145 (1971).

approach, adopted in twenty jurisdictions for tort conflicts,<sup>220</sup> calls for choosing the substantive law of the state with the most significant relationship to the transaction and to the parties. To determine which state that might be, four factors are considered: (1) the place where the injury occurred; (2) the place where the conduct causing the injury occurred; (3) the domicile, residence, nationality, place of incorporation and place of business of the parties; and (4) the place where the relationship between the parties is centered.<sup>221</sup>

These factors obviously do not set forth bright-line rules. Assuming that the injury and the conduct causing the injury occurred in a single state, the inquiry would probably not be difficult since that state would likely be the one with the most significant relationship.<sup>222</sup> But where, as is more likely, a defendant acted in one or more states and the resulting injury occurred in yet other states, choice of law becomes more difficult.<sup>223</sup> Engaging in choice of law analysis is obviously more than an academic exercise since it may well change the outcome of a case.<sup>224</sup>

Of course, the fact that trade secret cases pose conflicts issues does not in itself warrant federalizing trade secrets law, for such issues are inevitably present in any action with multistate contacts. But some characteristics of trade secret misappropriation, which set it apart from most torts, exacerbate the typical

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<sup>220</sup> See Symeonides, *supra* note 213, at 198–99.

<sup>221</sup> See RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 145(2) (1971).

<sup>222</sup> See *id.* § 145 cmt. e (suggesting that domicile, residence, nationality, place of incorporation, and place of business of the parties do not carry much weight by themselves; their importance “depends largely on the extent to which they are grouped with other contacts”).

<sup>223</sup> See, e.g., *Rohm & Haas Co. v. Adco Chem. Co.*, 689 F.2d 424, 426–31 (3d Cir. 1982) (involving Pennsylvania, where plaintiff had its principal place of business and where the secret was entrusted to an employee in confidence—presumably the state of injury to plaintiff due to lost profits—and New Jersey, where the corporate defendant was incorporated, had its principal place of business, and exploited the trade secret—presumably the state of defendant’s wrongful conduct); *CPG Prods.*, 214 U.S.P.Q. (BNA) at 211 (involving Minnesota (where plaintiff was incorporated and headquartered), Ohio (where plaintiff had a place of business, developed the trade secret, and where the actual physical transmission of the trade secret took place), and New York (where defendant was incorporated, planned the misappropriation scheme, and subsequently wrongfully used the trade secret)).

<sup>224</sup> See, e.g., *Computer Assoc. Int’l, Inc. v. Altai, Inc.*, 775 F. Supp. 544, 566 (E.D.N.Y. 1991), *aff’d*, 982 F.2d 693, 718 (2d Cir. 1992), *on remand*, 832 F. Supp. 50, 51–52 (E.D.N.Y. 1993) (choosing Texas law resulted in the barring of plaintiff’s trade secret claim, which would have been viable had New York substantive law controlled). Texas, which has not adopted the UTSA, applies a two-year statute of limitations to trade secret misappropriation claims. Unlike other jurisdictions, its statutory period begins to run when the wrongful act is committed, regardless of when the wrong was discovered or should have been discovered. Plaintiff’s claim in *Computer Associates v. Altai* was filed more than two years after the cause of action accrued, but within two years of the date that the parties stipulated it should have known of the misappropriation. See *id.* at 51–54.

complexities in determining which state's substantive law should apply.

In trade secret cases, ascertaining precisely where the injury or the alleged act of misappropriation took place is often a problem. For example, where the plaintiff was headquartered in Minnesota and had an office in Ohio (where the trade secret was developed and located), and where the defendant improperly used plaintiff's trade secret in New York, it is not clear whether plaintiff was injured in Minnesota, Ohio, or New York, or perhaps all three states.<sup>225</sup> Similarly, where a defendant planned the misappropriation and later improperly exploited the misappropriated trade secret in New York, but the actual physical transmission of the information took place in Ohio,<sup>226</sup> determining whether the defendant's bad conduct occurred in New York or Ohio may be difficult.<sup>227</sup> Furthermore, e-mail and the internet have made it possible for misappropriators to gain access to their competitors' trade secrets by invading the competitors' computer systems from remote locations.<sup>228</sup> This, in turn, compounds the difficulty in pinpointing the critical events so as to arrive at the appropriate choice of law.<sup>229</sup>

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<sup>225</sup> See *CPG Prods.*, 214 U.S.P.Q. (BNA) at 206. One could argue that plaintiff suffered the effects of its profit losses in Minnesota, where it had its principal place of business. Alternatively, it could be said that plaintiff's losses were directly felt in Ohio, where the trade secret was developed and located and where plaintiff had an office. Or, plaintiff could have been injured in New York, in the form of potential lost sales resulting from defendant's wrongful exploitation of the trade secret in that state. More likely, plaintiff was injured in all three states.

<sup>226</sup> See *id.*

<sup>227</sup> For additional cases with complicated multistate involvement, see, for example, *Sil-Flo, Inc. v. SFHC, Inc.*, 917 F.2d 1507 (10th Cir. 1990) (involving a plaintiff incorporated in Delaware with an office in Oklahoma, a plant in Texas, and a mine in Arizona; a defendant incorporated in Oklahoma where it carried out much of its allegedly wrongful activities; an individual plaintiff domiciled in New York; and individual defendants domiciled in Oklahoma); *Default Proof Credit Card Sys., Inc. v. State St. Bank & Trust Co.*, 753 F. Supp. 1566, 1567, 1570 (S.D. Fla. 1990) (involving a Florida corporate plaintiff, a Massachusetts corporate defendant, misappropriation which took place primarily in Massachusetts and Georgia, and injury that was felt in Florida and other states); *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 254 (S.D. Cal. 1958) (involving a plaintiff incorporated in Indiana, a defendant incorporated in New York with offices in New York and Connecticut and a plant in California, and the defendant's improper use of the trade secret in California), *aff'd*, 283 F.2d 695 (9th Cir. 1960).

<sup>228</sup> See Henry H. Perritt, Jr., *Jurisdiction in Cyberspace*, 41 VILL. L. REV. 1, 49 (1996) (arguing that because the electronic media allows "actor, intermediaries and victim" to be in geographically distinct and distant locations, choice of law analysis requires "careful scrutiny of the technology").

<sup>229</sup> The use of electronic media for the misappropriation of trade secrets has become commonplace and is frequently reported in the news. See Jager & Cook, *supra* note 86. However, there are only a handful of reported judicial decisions involving misappropriation using such means. They include a series of cases brought by the Church of Scientology in its decade-old battle with Church dissidents alleging misappropriation of the Church's trade secrets, in this case sacred



Even assuming that choosing the controlling substantive law is not unduly difficult once misappropriation occurs, uncertainty about which state's law will govern frustrates rational planning by those who own the trade secrets. A fundamental concept of trade secrets law is that an owner must take reasonable measures to preserve the secrecy of the information for which legal protection is sought.<sup>230</sup> If trade secrets may be misappropriated anywhere, to avail themselves of protection, businesses must "either adopt a different confidentiality program" for each state in which they operate or "adopt one confidentiality program designed to satisfy the most restrictive aspects of the trade secret laws" of all of the states in which future misappropriation is likely.<sup>231</sup> The first choice would obviously be inefficient, as would be the second choice (except in the unlikely event that the proposed federal trade secrets law is more demanding of trade secret owners than the most restrictive state trade secrets law currently in effect).<sup>232</sup> Enacting a uniform trade secrets law would solve difficult choice of law problems<sup>233</sup> and also possibly

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documents. In these cases, the Church's confidential documents, which were prepared in California, its headquarters, were taken by unknown individual(s) through improper means and circulated among Church dissidents. In one case, a dissident in Virginia posted the documents on the internet via his Virginia internet access provider, and the documents were accessible to and were read by people in many states. In a similar case, another dissident and his Colorado-based, nonprofit, bulletin board service also posted the document on the internet. In each of these cases, the court applied the substantive law of the forum, without engaging in any choice of law analysis. See *Religious Tech. Ctr. v. Lerma*, 897 F. Supp. 260 (E.D. Va. 1995) (Lerma I); *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1362 (E.D. Va. 1995) (Lerma II); *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1353 (E.D. Va. 1995) (Lerma III); *Religious Tech. Ctr. v. F.A.C.T. Net, Inc.*, 901 F. Supp. 1519 (D. Colo. 1995).

<sup>230</sup> See *supra* notes 107–09 and accompanying text.

<sup>231</sup> See *Pace*, *supra* note 8, at 446–47, 448 n.69 (assuming that choice of law is not unduly difficult but arguing for a federal trade secrets law for efficiency reasons, to ensure that businesses will not have to implement a confidentiality plan that meets the requirements of the most demanding jurisdiction).

<sup>232</sup> If a federal law were as demanding of trade secret owners (in terms of efforts at maintaining secrecy) as the most restrictive state law, then no difference in efficiency would follow.

<sup>233</sup> As a solution to choice of law problems arising in complex litigation, many conflicts scholars have advocated federalizing the choice of law rules for mass-torts and other litigation that frequently implicate multiple states. See, e.g., *Baxter*, *supra* note 212, at 40–41; Michael H. Gottesman, *Draining the Dismal Swamp: The Case for Federal Choice of Law Statutes*, 80 GEO. L.J. 1 (1991); Horowitz, *supra* note 212, at 1191; Linda S. Mullenix, *Federalizing Choice of Law for Mass-Tort Litigation*, 70 TEX. L. REV. 1623 (1992). But see Larry Kramer, *Choice of Law in Complex Litigation*, 71 N.Y.U. L. REV. 547 (1996) (rejecting the notion that complex litigation justifies manipulating choice of law rules).

Although federalizing choice of law rules will bring some order to choice of law analysis, it will not, in my view, solve the central problems associated with the lack of substantive uniformity in an area of the law that is so important to interstate commerce.

save trade secret owners from having to implement inefficient secrecy strategies.

#### D. U.S. Obligations Under NAFTA and TRIPS

Aside from the domestic concerns discussed above, the United States' international trade policy makes a compelling case for federal trade secrets legislation.<sup>234</sup> The United States currently enjoys a competitive edge, and a significant trade surplus, in exports of high-technology related goods and services.<sup>235</sup> Not surprisingly, then, international protection for the intellectual property interests of American businesses is a centerpiece in the government's international trade policy.<sup>236</sup>

The United States has long protested the inadequate intellectual property laws of other countries,<sup>237</sup> contending that their failure to protect American intellectual property interests abroad effectively operates as a non-tariff barrier.<sup>238</sup> To remedy the situation and to open international markets to American exports, the government has insisted on strong protective measures for United States intellectual property rights in multilateral, regional, and bilateral trade negotiations.<sup>239</sup> Primarily due to

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<sup>234</sup> See Pace, *supra* note 8, at 450-56.

<sup>235</sup> See *supra* notes 63, 66 and accompanying text.

<sup>236</sup> See Michael L. Doane, *TRIPS and International Intellectual Property Protection In an Age of Advancing Technology*, 9 AM. U. J. INT'L L. & POL'Y 465, 465 (1994) (observing that the international protection of intellectual property rights "occupies an important position on the U.S. agenda for proposed reforms of the international trading system"). See generally Spencer Weber Waller & Noel J. Byrne, *Changing View of Intellectual Property and Competition Law in the European Community and the United States of America*, 20 BROOK. J. INT'L L. 1 (1993) (discussing American efforts to promote international respect for intellectual property rights); Brent W. Sadler, Note, *Intellectual Property Protection Through International Trade*, 14 HOUS. J. INT'L L. 393, 393-96 (1992).

<sup>237</sup> See, e.g., *U.S. Trade Policy and NAFTA: Hearing Before the Senate Comm. on Finance*, 103d Cong. 8-45, 48-55 (1993) (statement of Ambassador Mickey Kantor, U.S. Trade Representative) (stating that one of his main objectives as Trade Representative was to open foreign markets to American businesses by pursuing strong protection for their intellectual property rights).

<sup>238</sup> See Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 IOWA L. REV. 273, 298 (1991) (noting that the cost of innovation is higher than the cost of imitation, and, thus, a foreign country's failure to protect American intellectual property interests abroad is as effective as a tariff because it raises the price of the imported American good relative to the local good); *U.S. Framework Proposal to GATT Concerning Intellectual Property Rights*, 4 INT'L TRADE REP. (BNA) 1371 (1987) (proposing stronger enforcement of intellectual property rights as a means of reducing barriers to trade).

<sup>239</sup> See *U.S. Trade Policy and NAFTA*, *supra* note 237 (stating that opening foreign markets to the U.S., which entails pursuing strong protective measures for U.S. intellectual property, was the main American objective in the Uruguay Round of GATT, NAFTA, and bilateral trade

these efforts, the protection of intellectual property rights, including trade secrets, was ultimately included in two major trade agreements to which the United States is a party: the North American Free Trade Agreement (NAFTA),<sup>240</sup> and the Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS),<sup>241</sup> arising out of the Uruguay Round of trade talks under the General Agreement on Tariffs and Trade. Both international agreements were approved by Congress through federal implementation statutes.<sup>242</sup>

NAFTA<sup>243</sup> and TRIPS<sup>244</sup> establish minimum substantive standards for

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negotiations with Japan, China, and other nations).

<sup>240</sup> See *supra* note 19.

<sup>241</sup> See *supra* note 20.

<sup>242</sup> See The Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994) (codified at 19 U.S.C. § 3511 (1994)); The NAFTA Implementation Act, Pub. L. No. 103-182, 107 Stat. 2057 (1993) (codified at 19 U.S.C. §§ 3311 (1994)).

Although trade agreements may be negotiated by the President as treaties, which require the consent of two-thirds of the Senate, they are often signed as congressional-executive agreements, which require approval by the majority of both houses of Congress. See HENKIN, *supra* note 26, at 175-211, 215-18. Congressional-executive agreements are generally considered to have the same legal effect as treaties. However, they are never self-executing although many treaties are self-executing. Because they are non-self-executing, congressional-executive agreements do not become domestic law until Congress passes implementing legislation giving them legal effect. Strictly speaking, it is the implementing legislation, not the congressional-executive agreement, that is the law. See *id.* at 198-204, 215-18. But regardless of the status of a congressional-executive agreement as domestic law, the agreement is binding on the United States *vis-a-vis* other signatory nations, which may seek sanctions against the United States under the terms of the international agreement for breach. See *id.* at 203.

Despite the routine use of congressional-executive agreements as an alternative to treaties for trade, there is debate about its use. See, e.g., Bruce Ackerman & David Golove, *Is NAFTA Constitutional?*, 108 HARV. L. REV. 799 (1995) (arguing that use of the congressional-executive agreement for NAFTA is consistent with constitutional text and that the Treaty Clause of Article V is purely optional); Laurence H. Tribe, *Taking Text and Structure Seriously: Reflections on Free-Form Method in Constitutional Interpretation*, 108 HARV. L. REV. 1221 (1995) (disputing the conclusions of Professors Ackerman and Golove and arguing that a serious textual and structural interpretation of the Constitution requires that trade agreements be ratified by two-thirds of the Senate under the Treaty Clause); see also *infra* notes 283-92 and accompanying text.

<sup>243</sup> The United States, Mexico, and Canada signed NAFTA on December 17, 1992. The trade secret provisions of NAFTA provide, in relevant part, the following:

1. Each Party shall provide the legal means for any person to prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as:

(a) the information is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question;

intellectual property protection (as well as enforcement procedures) below which no signatory country may fall.<sup>245</sup> The agreements mandate that state and provincial

- (b) the information has actual or potential commercial value because it is secret; and
  - (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.
2. A Party may require that to qualify for protection a trade secret must be evidenced in documents, electronic or magnetic means, optical discs, microfilms, films or similar instruments.
3. No Party may limit the duration of protection of trade secrets, so long as the conditions in paragraph 1 exist.

NAFTA, *supra* note 19, art. 1711, at 675.

<sup>244</sup> The United States and 116 other member countries signed TRIPS and other agreements reached in the Uruguay Round of Multilateral Trade Negotiations on April 15, 1994. *See* Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 1 (1994), 33 I.L.M. 1125 (1994) [hereinafter Final Act] (listing all the signatory countries).

The trade secret provisions of TRIPS provide, in relevant part, the following:

- 1. Members shall protect undisclosed information in accordance with paragraph 2 . . . .
- 2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:
  - (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
  - (b) has commercial value because it is secret; and
  - (c) has been subject to reasonable steps under the circumstances, by persons lawfully in control of the information, to keep it secret.

TRIPS, *supra* note 20, art. 39, at 98.

<sup>245</sup> Much has been written about the intellectual property provisions of both NAFTA and TRIPS. For NAFTA, see Kent S. Foster & Dean C. Alexander, *Opportunities for Mexico, Canada and the United States: A Summary of Intellectual Property Rights Under the North American Free Trade Agreement*, 20 RUTGERS COMPUTER & TECH. L.J. 67 (1994); Frank J. Garcia, *Protection of Intellectual Property Rights in the North American Free Trade Agreement: A Successful Case of Regional Trade Regulation*, 8 AM. U. J. INT'L L. & POL'Y 817 (1993); George Y. Gonzalez, Note, *An Analysis of the Legal Implications of the Intellectual Property Provisions of the North American Free Trade Agreement*, 34 HARV. INT'L L.J. 305 (1993).

For TRIPS, see Al J. Daniel, Jr., *Intellectual Property in the Uruguay Round: The Dunkel Draft and a Comparison of United States Intellectual Property Rights, Remedies, and Border Measures*, 25 N.Y.U. J. INT'L L. & POL. 751 (1993); Doane, *supra* note 236; J.H. Reichman, *The TRIPS Component of the GATT's Uruguay Round: Competitive Prospects for Intellectual Property Owners in an Integrated World Market*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 171 (1993); J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection*

governments of the member countries comply with their terms, and they direct the member nations to enforce their international obligations by securing conformity from their respective states and local provinces.<sup>246</sup> If any member nation fails to meet its commitment, the agreements authorize trade retaliation by the aggrieved trading partners.<sup>247</sup>

The trade secret provisions of NAFTA and TRIPS are generally consistent with the UTSA on which they were modeled,<sup>248</sup> and therefore states that have adopted the UTSA without restrictive modifications are generally in compliance with the international accords. However, because the Restatement provisions on trade secrets are less protective in some respects than the UTSA,<sup>249</sup> states that continue to abide by Restatement rules may fall short of the minimum standards established in NAFTA and TRIPS. For example, the more limiting Restatement definition of "trade secret" requires that information be continuously used in one's business to qualify for trade secret status. NAFTA and TRIPS, consistent with the UTSA, include no such requirement.<sup>250</sup> Consequently, in a Restatement jurisdiction, negative information or information that a trade secret owner has not yet used may

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*Under the TRIPS Component of the WTO Agreement*, 29 INT'L LAW. 345 (1995).

<sup>246</sup> See Final Act, *supra* note 244, art. XXIV, para. 12, at 36; NAFTA, *supra* note 19, art. 105, at 298. To the extent that NAFTA and the Uruguay Round of GATT require the United States to secure conformity from the states by directing the states to enact certain laws, they would seem to run afoul of *New York v. United States*, 505 U.S. 144, 177-80 (1992) (holding that the Constitution does not permit Congress to compel a state to regulate in a particular way).

<sup>247</sup> See NAFTA, *supra* note 19, art. 2019, at 697-98; GATT/Uruguay Round: Understanding on Rules and Procedures Governing the Settlement of Disputes, Dec. 15, 1993, art. 22, para. 6, 33 I.L.M. 112, 126-28.

<sup>248</sup> NAFTA has one additional condition for trade secret protection that is not found in either TRIPS or the UTSA: the subject must be in tangible form. See NAFTA, *supra* note 19, art. 1711, sec. 2, at 675 ("A Party may require that to qualify for protection a trade secret must be evidenced in documents, electronic or magnetic means, optical discs, microfilms, films or other similar instruments."). This restriction was inserted to accommodate Mexico, whose domestic trade secret law includes a similar limitation. See LEY DE FOMENTO Y PROTECCION DE LA PROPIEDAD INDUSTRIAL [LAW FOR THE PROMOTION AND PROTECTION OF INDUSTRIAL PROPERTY], *translated in* 5 WORLD INTELL. PROP. REP. (BNA) 241-59, art. 83 (1991) (providing that trade secrets "will be in documents, electronic or magnetic media, optical disks, microfilms or any other similar instruments").

<sup>249</sup> See *supra* notes 148-60 and accompanying text.

<sup>250</sup> Both NAFTA and TRIPS define "trade secret," almost identically, as information that (1) is not "generally known among or readily accessible" to those who normally deal with the kind of information in question; (2) has "commercial value" because it is secret; and (3) the person in control of the information has taken "reasonable steps under the circumstances" to keep the information secret. See NAFTA, *supra* note 19, art. 1711(1), at 675; TRIPS, *supra* note 20, art. 39(2), at 98.

not receive the protection that is called for under NAFTA or TRIPS.<sup>251</sup>

Furthermore, to the extent that some state versions of the UTSA are more restrictive than the UTSA,<sup>252</sup> they too may not meet the minimum standards mandated by the international agreements. For example, Alabama's Trade Secrets Act demands a showing of the owner's "intention to use the secret in trade or business" as a prerequisite for protection, a requirement that is not found in NAFTA or TRIPS.<sup>253</sup> As another example, Iowa limits third party liability to instances where the third party has *actual* knowledge of the original improper acquisition,<sup>254</sup> whereas NAFTA and TRIPS allow recovery against third parties without actual knowledge if they were "grossly negligent in failing to know."<sup>255</sup>

Although state variances that fall below NAFTA and TRIPS standards may not be numerous, the United States is nonetheless obligated to bring the non-conforming state laws into compliance. Enacting a federal trade secrets law would be one way of accomplishing that goal.<sup>256</sup> It would be ironic indeed if the United States were to be found in violation<sup>257</sup> of the very provisions that it had prodded

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<sup>251</sup> Also, unlike the Restatement, the improper acquisition of another's trade secret is independently wrongful, even absent subsequent use or disclosure of the trade secret, under both agreements. See NAFTA, *supra* note 19, art. 1711(1), at 675 (protecting trade secrets from being "disclosed to, acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices"); TRIPS, *supra* note 20, art. 39(2), at 98 (same); *supra* Part III.A.3 and accompanying text on other major differences between the trade secret provisions in the Restatement and in the UTSA.

<sup>252</sup> The most obvious example is Alabama. See ALA. CODE §§ 8-27-1 to 8-27-6 (1993 & Supp. 1997).

<sup>253</sup> See *supra* notes 168-71 and accompanying text. The Alabama Trade Secrets Act further requires that the information be "embodied" in a tangible form, a restriction not found in TRIPS. See ALA. CODE § 8-27-2(1) (1993).

<sup>254</sup> See IOWA CODE ANN. § 550.2(3) (West 1997).

<sup>255</sup> NAFTA, *supra* note 19, art. 1721(2), at 680; TRIPS, *supra* note 20, art. 39 n.10, at 98. This language differs somewhat from the UTSA which finds third party liability if the third party "knew or had reason to know" that improper means were used to acquire the secret. It is unclear whether the international agreements' "grossly negligent in failing to know" standard is easier to meet than UTSA's "had reason to know" standard. One commentator suggests that it is, see Pace, *supra* note 8, at 453, although I tend to disagree.

<sup>256</sup> The federal government could, of course, simply "consult with the States for the purpose of achieving conformity of State laws and practices" with the trade agreements. See The NAFTA Implementation Act, Pub. L. No. 103-182, § 102(b)(1)(A), 107 Stat. 2057, 2062 (1993); Uruguay Round Agreements Act, Pub. L. No. 103-465, § 102 (b)(1)(A), 108 Stat. 4809, 4815 (1994).

<sup>257</sup> Both NAFTA and the Uruguay Round of GATT include elaborate dispute resolution mechanisms. Under the Uruguay Round, for example, all signatory nations agree to submit to the authority of the World Trade Organization (WTO), established by the Uruguay Round, and its Dispute Settlement Body (DSB) or Appellate Body, and any signatory country aggrieved by an allegedly offending law of another signatory country may request the DSB to establish a panel to

foreign governments to accept.

Apart from the binding requirements of NAFTA and TRIPS, the enactment of a federal trade secrets law would also give the United States more credibility in its campaign to seek stronger international protective measures for trade secrets outside of NAFTA and TRIPS.<sup>258</sup> Trade secrets are currently the only form of intellectual property not subject to federal protection in this country. Other nations may misconstrue this fact as an indication that the United States itself does not truly view trade secrecy as a national priority and may more strenuously resist American demands for stronger trade secrets law.

#### IV. CONSTITUTIONAL FEDERALISM AND THE POLICY OF FEDERALISM

The subject of federalism has two dimensions: constitutional federalism, which is whether and to what extent the United States Constitution permits a federal trade secrets law; and the policy of federalism, which is whether such a law, assuming its constitutionality, would frustrate the values of federalism. The following first examines three possible constitutional bases for federal action: the Patent and Copyright Clause,<sup>259</sup> the foreign affairs power,<sup>260</sup> and the Commerce Clause.<sup>261</sup> This Article then looks at the policy of federalism.

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consider the matter. If the panel (or Appellate Body) finds the law or regulation in question illegal under GATT, the offending nation would be bound by that decision unless the entire GATT membership agrees to overturn the adverse decision. *See* GATT/Uruguay Round: Understanding on Rules and Procedures Governing the Settlement of Disputes, *supra* note 247, arts. 1–22, at 114–28; NAFTA, *supra* note 19, arts. 2003–19, at 694–98; Samuel C. Straight, Note, *GATT and NAFTA: Marrying Effective Dispute Settlement and the Sovereignty of the Fifty States*, 45 DUKE L.J. 216, 219–34 (1995) (discussing the dispute resolution mechanisms of NAFTA and GATT).

<sup>258</sup> *See* Pace, *supra* note 8, at 456.

<sup>259</sup> *See* U.S. CONST. art. I, § 8, cl. 8 (stating that Congress shall have the power “[t]o promote the Progress of Science and the useful Arts, by securing for limited Times, to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”). This clause is popularly referred to as the Patent and Copyright Clause although there is no mention of patents or copyrights in the language of the clause.

<sup>260</sup> It is long settled that any legislation enacted by Congress must be based on an enumerated power in the Constitution, a principle reinforced by the Tenth Amendment, which reserves to the states all powers not delegated to the federal government under the Constitution. *See* U.S. CONST. amend. X; *New York v. United States*, 505 U.S. 144, 155–56 (1992). However, some powers, such as the foreign affairs power of Congress, are considered inherent in national sovereignty although unenumerated. *See supra* note 26.

<sup>261</sup> *See* U.S. CONST. art. I, § 8, cl. 3 (giving Congress the power “[t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes”).

## A. Constitutional Basis

### 1. The Patent and Copyright Clause

At first glance, the express grant of constitutional authority to Congress “[t]o promote the Progress of Science and the useful Arts,”<sup>262</sup> popularly known as the Patent and Copyright Clause, seems to provide solid grounding for federal regulation of trade secrets. The inclusion of the Patent Clause as an enumerated power suggests that the framers of the Constitution considered intellectual endeavors a matter affecting the nation as a whole, the promotion of which requires national attention, not separate state treatment. Pursuant to this clause, the First Congress enacted the federal patent and copyright laws,<sup>263</sup> and it would appear that the clause should logically sustain federal protection of another type of intellectual property—trade secrets.

Indeed, when Congress enacted the EEA (the federal trade secrets criminal statute) in 1996, the Senate Judiciary Committee Report stated that authority for the act would come from the Patent and Copyright Clause, and the Commerce Clause.<sup>264</sup> Interestingly, beyond that single statement, no further reference to the Patent and Copyright Clause can be found in the legislative history of the act,<sup>265</sup> which included, in contrast, detailed findings of the interstate implications of trade secrets.<sup>266</sup> The absence of any discussion of the Patent Clause suggests that it was probably considered a weaker, or at least less certain, constitutional basis for the EEA than the Commerce Clause. Given the history of the federal trademark laws, this assessment is understandable.

Congress first sought to regulate trademarks pursuant to the Patent and Copyright Clause in 1870.<sup>267</sup> The act provided a federal registration scheme for all trademarks to which an applicant had established an exclusive right by usage, and it protected trademarks so registered against unauthorized use.<sup>268</sup> This first foray into federal trademark protection failed, however, when the Supreme Court invalidated the statute in the *Trade-Mark Cases*.<sup>269</sup> Narrowly construing the Patent

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<sup>262</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>263</sup> See *supra* note 41.

<sup>264</sup> See S. REP. NO. 104-359, at 4 (1996).

<sup>265</sup> See *id.* at 11–12; H.R. REP. NO. 104-788, at 4 (1996), reprinted in 1996 U.S.C.C.A.N. 4021, 4022.

<sup>266</sup> See *supra* note 207 and accompanying text.

<sup>267</sup> See Act of July 8, 1870, ch. 230, 16 Stat. 198, construed in *Trade-Mark Cases*, 100 U.S. 82, 92 (1879).

<sup>268</sup> See *Trade-Mark Cases*, 100 U.S. 82, 92 (1879).

<sup>269</sup> *Id.* The *Trade-Mark Cases* consists of three separate cases challenging the constitutionality of the trademark law which were consolidated on appeal to the Supreme Court.



Clause to permit federal regulation of only those matters having a “necessary relation to invention or discovery,”<sup>270</sup> the Court held that reliance on the Patent Clause for constitutional authority was misplaced since “neither originality, invention, discovery, science, nor art [was] in any way essential”<sup>271</sup> for protection under the challenged act. The current federal trademark statute, commonly known as the Lanham Act,<sup>272</sup> was later enacted in 1946 pursuant to Congress’s power to regulate interstate commerce.<sup>273</sup>

Under the Court’s reasoning in the *Trade-Mark Cases*, it would be difficult to look to the Patent and Copyright Clause for constitutional support for a federal trade secrets law. Although trade secrets *may* involve originality, invention, discovery, science or the arts, their protection under trade secrets law does not *require* a relation to these traits.<sup>274</sup> In fact, any information that has potential benefit to the owner and is not generally known to competitors, such as a mere customer list or business plan, is protectable as a trade secret. To the extent that the Patent and Copyright Clause is construed to authorize only laws with a *necessary* connection with inventions and discoveries in the arts and sciences exhibiting novelty and originality, it is unlikely to supply the constitutional basis for a federal trade secrets law.<sup>275</sup>

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<sup>270</sup> *Id.* at 94.

<sup>271</sup> *Id.*

<sup>272</sup> See 15 U.S.C. §§ 1051–1127 (1994 & Supp. I 1995).

<sup>273</sup> See *id.* § 1051 (“The owner of a trade-mark used in commerce may apply to register his or her trade-mark under this Chapter . . .”).

<sup>274</sup> See *supra* notes 53–54 and Part III.A.1–A.2.

<sup>275</sup> But perhaps it is time to revisit the *Trade-Mark Cases*, which was decided in the pre-New Deal era when the Supreme Court was prone to taking an extremely restrictive approach to federal powers, especially in the Commerce Clause context, without due consideration of the teaching of the landmark case on the Necessary and Proper Clause of the Constitution—*McCulloch v. Maryland*, 17 U.S. 316 (1819). Justice Marshall held in *McCulloch* that “necessary” does not mean indispensable but merely “convenient” or “useful” and that the Necessary and Proper Clause authorizes Congress to select any means intended to exercise its legitimate powers, even if the means chosen are not absolutely necessary to attain the end. See *id.* at 413. Had the *Trade-Mark Cases* properly considered the teaching of *McCulloch*, the question asked should have been whether trademark protection was useful or convenient, not whether it was *absolutely* necessary, for the promotion of science and arts. Had the question been phrased that way, the answer should have been “yes,” and reliance on the Patent Clause for the trademark law would have been justified. Similarly, a correct reading of *McCulloch* should mean as long as trade secrecy is a useful or convenient way to promote the sciences and the arts, as it obviously is, federal legislation would be permissible under the clause regardless of whether invention and discovery are *essential* to the rights conferred by such a law.

## 2. *The Foreign Affairs Power*

Had NAFTA and the Uruguay Round of GATT, of which TRIPS is a component, been signed by the President as treaties,<sup>276</sup> with the requisite concurrence of the Senate, a federal trade secrets law could easily rest on national authority over foreign affairs.<sup>277</sup> The Constitution explicitly gives the President the power, with the consent of two-thirds of the Senate, to make treaties with foreign nations.<sup>278</sup> Under the Supremacy Clause, these treaties become the "supreme Law of the Land," superseding contrary state laws.<sup>279</sup> In *Missouri v. Holland*,<sup>280</sup> Justice Holmes rejected the argument that the Tenth Amendment barred treaties from dealing with matters reserved to the states, and held that Congress, in implementing a treaty, may regulate even local affairs not otherwise reachable under other grants of power.<sup>281</sup>

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<sup>276</sup> The Constitution itself does not define treaties or distinguish them from other types of international agreements. See HENKIN, *supra* note 26, at 175, 184. A treaty is commonly considered "an agreement between two or more states or international organizations that is intended to be legally binding and is governed by international law." RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 301 (1987). There are two types of treaties: those that do not require an act of Congress to enforce (self-executing) and those that do require congressional action (non-self-executing). See HENKIN, *supra* note 26, at 198–204.

<sup>277</sup> Indeed, if a treaty were self-executing, *i.e.*, did not require an act of Congress to give it legal effect as domestic law, it would automatically become, under the Supremacy Clause, part of the "supreme Law of the Land" rendering contrary state laws invalid. See U.S. CONST. art. VI, § 2.

<sup>278</sup> See U.S. CONST. art. II, § 2 (providing that the President "shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two-thirds of the Senators present concur"). The Constitution also expressly prohibits states from treaty making. See U.S. CONST. art. I, § 10.

<sup>279</sup> See U.S. CONST. art. VI, § 2. This clause provides:

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any state to the Contrary notwithstanding.

*Id.*; see also *Missouri v. Holland*, 252 U.S. 416, 432 (1920) (stating that "treaties made under the authority of the United States, along with the Constitution and laws of the United States made in pursuance thereof, are declared the supreme law of the land").

<sup>280</sup> 253 U.S. 416 (1920).

<sup>281</sup> See *id.* at 432–34. Although treaties are not limited by the Tenth Amendment, they are subject to other constitutional constraints, particularly the Bill of Rights. See *Reid v. Covert*, 354 U.S. 1, 16–18 (1957) (rejecting the argument that an international agreement is free from all constitutional restraints and explaining that *Missouri v. Holland* only held that the Tenth

NAFTA and the Uruguay Round of GATT, however, were not signed as treaties but as congressional-executive agreements,<sup>282</sup> raising the question of whether a federal trade secrets act can still be rooted in the foreign affairs power of Congress. Congressional-executive agreements with foreign countries are made by the President with the pre- or post-approval of the majority of both houses of Congress.<sup>283</sup> The constitutional foundation of these agreements is unclear. The Constitution does not expressly empower the President to make non-treaty agreements. Nor does it explicitly confer power on Congress to regulate foreign affairs independent of its authority to implement valid treaties.<sup>284</sup>

Those who question the constitutionality of congressional-executive agreements argue that Congress, which has no authority to negotiate with foreign governments, cannot delegate what it does not have to the President.<sup>285</sup> But others respond that the combined authorities of Congress (to legislate) and the President (to negotiate with foreign nations) are sufficient to vest joint authority in Congress and the President to make these agreements.<sup>286</sup> Regardless of the merits of these

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Amendment was not a barrier to the treaty power).

<sup>282</sup> See NAFTA Implementation Act, Pub. L. No. 103-182, § 101(a), 107 Stat. 2057, 2061 (1993) (codified at 19 U.S.C. § 3311 (1994)) (citing congressional approval of NAFTA); Uruguay Round Agreements Act, Pub. L. No. 103-465, § 1016, 108 Stat. 4809, 4814 (1994) (codified at 19 U.S.C. § 3511 (1994)) (same).

<sup>283</sup> See HENKIN, *supra* note 26, at 215-16. Some agreements, termed "sole-executive agreements," can be made by the President on his own authority. See *id.* at 219-24.

<sup>284</sup> Some have tried to derive Congress's foreign affairs power, by implication, from other explicit grants of power. For example, it has been suggested that the power of Congress to regulate commerce with foreign nations gives rise to a plenary federal power in foreign affairs, or that Congress's power to do what is "necessary and proper" to carry out other powers under the Constitution encompasses conducting foreign affairs. See *id.* 14-15. Despite confusion about the source, the Supreme Court has long recognized that Congress is empowered to regulate foreign affairs, independent of its authority to implement treaties. See *infra* note 287.

<sup>285</sup> See J. B. MOORE, 60 PROCEEDINGS OF THE AMERICAN PHILOSOPHICAL SOCIETY, MINUTES XV-XVI (1921), *quoted in* HENKIN, *supra* note 26, at 216 n.154 ("As Congress possesses no power whatever to make international agreements, it has no such power to delegate.").

<sup>286</sup> See HENKIN, *supra* note 26, at 216. For articles debating the constitutionality of executive agreements, see ELBERT M. BYRD, JR., TREATIES AND EXECUTIVE AGREEMENTS IN THE UNITED STATES 152, 155 (1960) (rejecting the idea that treaties and executive agreements are complete alternatives); Raoul Berger, *The Presidential Monopoly of Foreign Relations*, 71 MICH. L. REV. 1 (1972) (suggesting that the Treaty Clause bars non-treaty executive agreements); Myres S. McDougal & Asher Lans, *Treaties and Congressional-Executive or Presidential Agreements: Interchangeable Instruments of National Policy: I*, 54 YALE L.J. 181 (1945) (suggesting that the treaty-making procedure and agreement making procedure are interchangeable); Kenneth C. Randall, *The Treaty Power*, 51 OHIO ST. L.J. 1089 (1990) (focusing on the subject matter of agreements formed).

theoretical arguments, the Supreme Court has long recognized that Congress is empowered to regulate foreign affairs independent of its authority to implement valid treaties,<sup>287</sup> and that congressional-executive agreements are constitutional.<sup>288</sup> In fact, congressional-executive agreements are widely used as an alternative to treaties in connection with trade.<sup>289</sup>

Congressional-executive agreements, like treaties, are considered the law of the land with supremacy over conflicting state laws.<sup>290</sup> They are generally considered interchangeable with treaties.<sup>291</sup> If congressional-executive agreements enjoy the same status as treaties, then they too should not be "subject to any curtailment or interference on the part of the several states,"<sup>292</sup> and *Missouri v. Holland* should also allow Congress to legislate in areas otherwise outside of its enumerated powers. Accordingly, Congress should be able to federalize trade secrets law, pursuant to its foreign affairs power to implement NAFTA and GATT, without regard to any

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<sup>287</sup> See, e.g., *Perez v. Brownell*, 356 U.S. 44, 57 (1958) (noting that although the Constitution does not expressly grant Congress authority to regulate foreign affairs, "there can be no doubt of the existence of this power in the law-making organ of the Nation"); *United States v. Curtiss-Wright Export Corp.*, 299 U.S. 304, 318 (1936) (stating that the powers of the United States to conduct foreign affairs do not derive from the Constitution, but are inherent from the sovereignty of the nation); *The Chinese Exclusion Case*, 130 U.S. 581, 603-04 (1889) (holding that Congress could legislate to exclude aliens, based on race, because it is a power "incident of every independent nation").

<sup>288</sup> See *United States v. Belmont*, 301 U.S. 324, 331 (1937) (stating that international agreements, like treaties, are to be given supremacy over state law); *Curtiss-Wright*, 299 U.S. at 318 (stating that "the power to make such international agreements as do not constitute treaties" is one of those powers which, though not explicitly granted by the Constitution, exists in the federal government as inherent in national sovereignty).

<sup>289</sup> See HENKIN, *supra* note 26, at 218.

<sup>290</sup> See *Dames & Moore v. Regan*, 453 U.S. 654, 686 (1981) (giving a sole executive agreement, signed with Iran, effect as law); *Belmont*, 301 U.S. at 331 (holding that "the external powers" of the country, whether exercised through treaties or executive compacts and agreements, cannot be subject to state laws or policies); HENKIN, *supra* note 26, at 217 (such an agreement supersedes inconsistent state laws).

<sup>291</sup> See HENKIN, *supra* note 26, at 217. But see *GATT Implementing Legislation: Hearings on S.2469 Before the Senate Comm. on Commerce, Science, and Transportation*, 103d Cong. 285-339 (1994) (statement of Laurence H. Tribe) (arguing that congressional-executive agreements and treaties are not wholly interchangeable and that the Uruguay Round so impinges on state sovereignty that it should be passed as a treaty). However, Professor Tribe later qualified, or retracted, his earlier opposition to the implementation of GATT/Uruguay Round as a congressional-executive agreement. See Letter from Laurence H. Tribe to Senator George J. Mitchell (Nov. 28, 1994), reprinted in 140 CONG. REC. S15,078 (daily ed. Nov. 30, 1994) ("I regard as my responsibility, in light of Assistant Attorney General Dellinger's recent forceful analysis, to say that I believe the Clinton Administration has based its position on the Uruguay Round Agreements on constitutional arguments that are both powerful and plausible.").

<sup>292</sup> *Belmont*, 301 U.S. at 331.

possible intrusion into state powers.

With both NAFTA and GATT, however, there is an additional wrinkle. In implementing these international agreements into domestic law, Congress apparently chose to limit the exercise of its own powers. The implementing acts do not incorporate the substantive terms of the respective international agreements by reference, in which event the terms of the agreements would have become federal law.<sup>293</sup> Instead, they explicitly state that no state law nor its application may be declared invalid as contrary with the international agreements, except in an action brought for such purpose by the United States.<sup>294</sup> Indeed, even an international determination, made by an appropriate dispute settlement panel, that a specific state law is inconsistent with either of the trade agreements does not operate to preempt the state law.<sup>295</sup> To ensure that state laws will be made to conform to the international agreements as required, the implementing acts merely provide that the President will “consult with the States for the purpose of achieving conformity of State laws”<sup>296</sup> in regard to the trade agreements.

The implementing statutes clearly indicate, then, Congress’s intention not to preempt state law when it approved NAFTA and TRIPS. However, if congressional-executive agreements are constitutional, and if *Missouri v. Holland* has equal application to them, then Congress does have constitutional authority under its foreign affairs power to preempt state law to fulfill the country’s international obligations. Its declining to do so earlier would seem to be just that—a

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<sup>293</sup> See NAFTA Implementation Act, Pub. L. No. 103-182, 107 Stat. 2057 (1993) (codified at 19 U.S.C. § 3311 (1994)); Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994) (codified at 19 U.S.C. § 3511 (1994)).

<sup>294</sup> See NAFTA Implementation Act § 102(b)(2), 107 Stat. at 2063 (“No State law, or the application thereof, may be declared invalid as to any person or circumstance on the ground that the provision or application is inconsistent with the Agreement, except in an action brought by the United States for the purpose of declaring such law or application invalid.”); Uruguay Round Agreements Act § 102(b)(2)(A), 108 Stat. at 4817. This section provides:

No State law, or the application of such a State law, may be declared invalid as to any person or circumstance on the ground that the provision or application is inconsistent with any of the Uruguay Round Agreements, except in an action brought by the United States for the purpose of declaring such law or application invalid.

*Id.*

<sup>295</sup> See NAFTA Implementation Act § 102(b)(2)(B), 107 Stat. at 2063 (stating that any finding by an international dispute settlement panel against a state law is not binding against the state in any action brought by the U.S. challenging the state law, and imposing the burden of proof on the issue on the U.S.); Uruguay Round Agreements Act § 102 (b)(2)(B), 108 Stat. at 4817 (same).

<sup>296</sup> NAFTA Implementation Act § 102 (b)(1)(A), 107 Stat. at 2062; Uruguay Round Agreements Act § 102 (b)(1)(A), 108 Stat. at 4815.

judgment or decision that subsequent Congresses can reverse because Congress, or any branch of the government for that matter, cannot "waive" its constitutional powers.<sup>297</sup> Thus, Congress may be able to find support in its foreign affairs power for any federal trade secrets legislation designed to satisfy U.S. obligations on trade secret protection under NAFTA and TRIPS.

### 3. *Interstate and Foreign Commerce Power*

Of all of the granted powers, the Commerce Clause, which allows Congress to regulate interstate and foreign commerce,<sup>298</sup> is probably the strongest constitutional basis for federal action. Although the Supreme Court in 1995 did limit the reach of the clause in *United States v. Lopez*,<sup>299</sup> not even the broadest reading of that case bars a federal trade secrets law containing an appropriate jurisdictional element. Furthermore, given the significant link between trade secrets as a *class* and interstate commerce, one can reasonably argue that *Lopez* does not forbid even a statute without a jurisdictional element requiring case-by-case determination of the effect on interstate commerce.

From 1937 until *Lopez*, it was well-established that the Commerce Clause permitted Congress to regulate not only the use of the "channels of interstate and foreign commerce"<sup>300</sup> and "the instrumentalities of interstate commerce" irrespective of whether the threat came from interstate activities,<sup>301</sup> but also wholly intrastate activities that affected interstate commerce.<sup>302</sup> The clause was also

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<sup>297</sup> See *New York v. United States*, 505 U.S. 144, 182 (1992) (stating that states cannot consent to federal overreaching any more than one branch of the government can consent to the encroachment of its constitutional powers by another branch of the government).

<sup>298</sup> See U.S. CONST. art. I, § 8, cl. 3 (conferring upon Congress the legislative powers "[t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes").

<sup>299</sup> 514 U.S. 549, 567 (1995) (holding that a federal law prohibiting the possession of firearms within a school zone exceeded the power of Congress to regulate interstate commerce).

Much has been written critiquing *Lopez* and analyzing its meaning and implications. See, e.g., Ann Althouse, *Enforcing Federalism After United States v. Lopez*, 38 ARIZ. L. REV. 793 (1996); Herbert Hovenkamp, *Judicial Restraint and Constitutional Federalism: The Supreme Court's Lopez and Seminole Tribe Decisions*, 96 COLUM. L. REV. 2213 (1996).

<sup>300</sup> See, e.g., *Gooch v. United States*, 297 U.S. 124, 128 (1936) (upholding statute forbidding the interstate transportation of kidnapped persons); *Caminetti v. United States*, 242 U.S. 470, 491 (1917) (stating that the authority of Congress to "keep the channels of interstate commerce free from immoral and injurious uses" under its commerce powers was clear and "no longer open to question").

<sup>301</sup> See, e.g., *Shreveport Rate Cases*, 234 U.S. 342, 358-60 (1914) (sustaining congressional authority to reach intrastate rail rates that discriminated against interstate railroad traffic).

<sup>302</sup> See, e.g., *Heart of Atlanta Motel, Inc. v. United States*, 379 U.S. 241, 258 (1964)

construed to reach intrastate matters when their regulation was necessary for the effective regulation of interstate commerce.<sup>303</sup> Over the years, Congress has enacted an array of far-reaching legislation regulating intrastate economic activities based on its judgment that a sufficient interstate commerce nexus existed. Examples include acts covering intrastate coal mining,<sup>304</sup> intrastate “loan sharking” (or extortionate credit transactions),<sup>305</sup> and even the production and consumption of home-grown wheat;<sup>306</sup> laws prohibiting racial discrimination in public accommodations,<sup>307</sup> and laws establishing minimum wages and working conditions.<sup>308</sup> In every case from 1937 until *Lopez*, the Supreme Court deferred to congressional judgment that its acts were within the purview of the Commerce Clause<sup>309</sup> and never found the limits of the commerce power crossed.

In invalidating a federal act for exceeding Congress’s commerce powers in 1995, *Lopez* did serve notice that the long-standing assumptions about judicial restraint and the breadth of the Commerce Clause no longer hold true.<sup>310</sup> However,

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(upholding provisions of the Civil Rights Act of 1964 precluding racial discrimination in public accommodations under the Commerce Clause and stating that, even if the operation of the motel were purely local, Congress could regulate it if the discriminatory activities have a substantial effect on interstate commerce); *Wickard v. Filburn*, 317 U.S. 111, 128–29 (1942) (holding that wheat grown wholly for home consumption fell within the scope of federal regulation of wheat production because it supplied the needs of the grower and therefore affected the price of wheat in the open market); *United States v. Wrightwood Dairy Co.*, 315 U.S. 110, 125 (1942) (holding that Congress could regulate the price of intrastate milk because the sale of intrastate milk, in competition with interstate milk, affected federal regulation of the latter); *United States v. Darby*, 312 U.S. 100, 119–23 (1941) (upholding a federal statute prohibiting the employment of workers at below prescribed wages in the production of goods within a state for interstate commerce).

<sup>303</sup> See, e.g., *Wickard*, 317 U.S. 111–33; *Darby*, 312 U.S. at 100–26; *N.L.R.B. v. Jones & Laughlin Steel Corp.*, 301 U.S. 1 (1937); *Shreveport Rate Cases*, 234 U.S. at 342–60; *McDermott v. Wisconsin*, 228 U.S. 115 (1913).

<sup>304</sup> See *Hodel v. Virginia Surface Mining & Reclamation Ass’n*, 452 U.S. 264 (1981).

<sup>305</sup> See *Perez v. United States*, 402 U.S. 146 (1971).

<sup>306</sup> See *Wickard*, 317 U.S. at 111–33.

<sup>307</sup> See *Katzenbach v. McClung*, 379 U.S. 294 (1964); *Heart of Atlanta Motel*, 379 U.S. at 241–93.

<sup>308</sup> See *Darby*, 312 U.S. at 100–26; *Jones & Laughlin Steel Corp.*, 310 U.S. at 1–49.

<sup>309</sup> The Court generally limited its inquiry to a determination of whether there was a “rational basis” to support Congress’s finding of an effect on interstate commerce. See, e.g., *Virginia Surface Mining*, 452 U.S. at 276; *Katzenbach*, 379 U.S. at 303–04.

<sup>310</sup> The Supreme Court also limited Congress’s far-reaching legislative powers under the Constitution in a number of recent decisions other than *Lopez*. See *Printz v. United States*, 117 S. Ct. 2365, 2384 (1997) (ruling that the part of the Brady gun law that compelled state officials to help implement a federal gun control program was unconstitutional); *City of Boerne v. Flores*, 117 S. Ct. 2157, 2171–72 (1997) (holding that the federal Religious Freedom Restoration Act of 1993, which prohibited states from substantially burdening a person’s free exercise of religion without

the majority in *Lopez* never rejected the principle that the Commerce Clause permits congressional regulation of intrastate activities "having a substantial relation to interstate commerce."<sup>311</sup>

In *Lopez*, the Supreme Court struck down the Gun-Free School Zones Act of 1990,<sup>312</sup> a law that made the possession of a gun on school premises a federal crime, primarily for three reasons. First, the majority said that the criminal statute was aimed at ordinary violence and had "nothing to do with 'commerce.'"<sup>313</sup> Second, it faulted Congress for making no factual findings to support its "legislative judgment that the activity in question substantially affected interstate commerce"<sup>314</sup> and suggested that such findings might have made a difference.<sup>315</sup> Third, it expressed the fear that upholding the law based on an "inference upon inference" of an impact on interstate commerce would result in federal regulation of education and assumption of police powers that are traditionally the domain of the states.<sup>316</sup>

Given the concerns expressed in *Lopez*, it is unlikely that federal regulation of trade secrets would offend the Supreme Court. By its very nature, a federal trade secrets law would be radically different from the invalidated gun act. Unlike the Gun-Free School Zones Act, federal trade secrets legislation would be aimed directly at commercial activities. The causal chain between trade secret protection

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a "compelling governmental interest," even if the burden results from a rule of general applicability, exceeded Congress's powers under the Fourteenth Amendment); *Seminole Tribe v. Florida*, 517 U.S. 44, 75-76 (1996) (invalidating that portion of the Indian Gaming Regulatory Act that allowed Native American tribes to sue states in federal court to compel states to negotiate with the tribes in good faith in disputes regarding the establishment of casinos).

<sup>311</sup> *United States v. Lopez*, 514 U.S. 549, 558-59 (1995) (reiterating the three broad categories of activity that Congress may regulate under the Commerce Clause, which include intrastate activities substantially affecting interstate commerce).

Justice Kennedy, concurring, specifically warned against narrowly interpreting the term interstate commerce in a way that "would serve only an 18th century economy," and he stated his belief in the "practical" interpretation of "commerce" that has existed since the New Deal. *See id.* at 573. (Kennedy, J., concurring).

Justice Thomas, concurring, alone argued that modern Commerce Clause jurisprudence is illegitimate, and that Congress's commerce powers should be limited to activities in connection with interstate "selling, buying, and bartering, as well as transportation for these purposes," not manufacturing or other productive activities, which should be subject only to state regulation. *See id.* at 585-88 (Thomas, J., concurring).

<sup>312</sup> 18 U.S.C. § 922(q) (Supp. II. 1990).

<sup>313</sup> *Lopez*, 514 U.S. at 560-61. Justice Breyer, dissenting, rejected the majority's commercial/noncommercial distinction and argued that the test should not be whether the legislation regulates commerce, but rather whether the regulated activity *affects* interstate commerce). *See id.* at 627-28 (Breyer, J., dissenting).

<sup>314</sup> *Id.* at 562-63.

<sup>315</sup> *See id.* at 561-62.

<sup>316</sup> *See id.* at 567.



(or non-protection) and interstate commerce is direct, not attenuated, and the effect on interstate commerce is substantial, as Congress specifically found in enacting the Economic Espionage Act of 1996.<sup>317</sup> Furthermore, although Congress, so far, has not attempted to regulate trade secrets beyond enactment of the EEA, matters of competition and economic regulation are not areas traditionally or inherently reserved for the states.<sup>318</sup>

Because *Lopez* acknowledged that Congress may regulate “those activities having a substantial relation to interstate commerce,”<sup>319</sup> a federal trade secrets law containing an appropriate jurisdictional element would clearly be constitutional under the Commerce Clause. Indeed, the majority in *Lopez* noted the absence of a jurisdictional element in the Gun-Free School Zones Act and suggested that its inclusion might have saved it.<sup>320</sup> A jurisdictional provision, such as that found in the antitrust law,<sup>321</sup> would limit the law’s reach to activities having the necessary nexus to interstate commerce, thus guaranteeing its constitutionality under the Commerce Clause.

But even without a jurisdictional provision, a federal trade secrets act would still be sustainable under the Commerce Clause. As long as Congress determines that a class of activities, in the aggregate, exerts a substantial effect on interstate commerce, it can be argued that the entire class is within the scope of the Commerce Clause without the need for case-by-case jurisdictional analysis.<sup>322</sup> Cases such as *Perez v. United States*<sup>323</sup> have looked to the class of activities as a whole to determine the constitutionality of a congressional act.<sup>324</sup> If the collective effect of the class on interstate commerce is substantial, the law can be found constitutional and applied to all within the class, including individual members or activities without the requisite connection with interstate commerce.<sup>325</sup>

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<sup>317</sup> See *supra* notes 206–07 and accompanying text.

<sup>318</sup> See, e.g., Federal Antitrust Act, 15 U.S.C. §§ 1–35 (1994) (also known as the “Sherman Act”).

<sup>319</sup> *Lopez*, 514 U.S. at 558–59 (“Congress’s commerce authority includes the power to regulate those activities having a substantial relation to interstate commerce.”).

<sup>320</sup> See *id.* at 561–62.

<sup>321</sup> See Sherman Act § 1 (1994) (prohibiting agreements in restraint of “trade or commerce among the several States”).

<sup>322</sup> But see John Copeland Nagle, *The Commerce Clause Meets the Delhi Sands Flower-Loving Fly*, 97 MICH. L. REV. 174 (1998).

<sup>323</sup> 402 U.S. 146 (1971).

<sup>324</sup> See also *Wickard v. Filburn*, 317 U.S. 111, 127–29 (1942) (finding that wheat grown for home consumption was within the scope of federal regulation of wheat production because of the aggregate effect that wheat grown for home consumption exerts on the demand and price of wheat involved in interstate commerce).

<sup>325</sup> See *Perez v. United States*, 402 U.S. 146, 154–56 (1971).

For example, in *Perez*, the “loan sharking” law under which the defendant was convicted penalized the use of, or threat to use, violence in the collection of a debt. It had no jurisdictional element limiting its application to activities having a substantial relationship to interstate commerce, and there was no connection between any of the activities in *Perez* and interstate commerce.<sup>326</sup> Still, because Congress had found that “loan sharking” activities substantially affected interstate commerce, the Court held that the legislation could extend to the entire class of activities, and it was irrelevant that the defendant’s particular activities were purely intrastate.<sup>327</sup>

It would seem easy, under *Perez*, to justify a federal trade secrets law without a jurisdictional element. The legislative history of the EEA includes findings about the close relationship between trade secrecy and interstate commerce, the importance of trade secrets to the national economy, the substantial effect of trade secrets and trade secret misappropriation on interstate and foreign commerce, and the ease and frequency with which trade secrets are misappropriated across state and national lines.<sup>328</sup> These findings are surely enough to find that trade secrets (or trade secret misappropriation) constitute a class of activities whose aggregate impact on interstate commerce is so substantial that Congress can reach *all* trade secret misappropriation without a case-by-case assessment of interstate impact.

Even in light of *Lopez*, this interpretation and application of *Perez* would not be overly broad. *Lopez* cautions against adopting a Commerce Clause test that would effectively allow Congress to regulate everything that is deemed important.<sup>329</sup> But it also concedes that “where a general regulatory statute bears a substantial relation to commerce, the de minimus character of individual instances arising under that statute is of no consequence.”<sup>330</sup> A federal trade secrets law would establish a scheme that strikes a proper balance between protecting innovators and not unduly hindering others’ use of information. Such a program is clearly related to interstate commerce, and therefore, the intrastate nature of a particular instance of misappropriation, such as a local business stealing a customer list from a competitor down the block, for example, should be irrelevant.<sup>331</sup> Given

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<sup>326</sup> See *id.* at 147–48.

<sup>327</sup> See *id.* at 154 (“Where the class of activities is regulated and that class is within the reach of federal power, the courts have no power ‘to excise, as trivial, individual instances’ of the class.”) (emphasis omitted).

<sup>328</sup> See *supra* note 207.

<sup>329</sup> See Nagle, *supra* note 322.

<sup>330</sup> *United States v. Lopez*, 514 U.S. 549, 558 (1995) (quoting *Maryland v. Wirtz*, 392 U.S. 183, 197 (1968)) (emphasis omitted).

<sup>331</sup> Although an act of misappropriation may be local, it is unlikely that *all* aspects relating to the development and use of the trade secret are local, or that all benefits gained by, or losses suffered from, the misappropriation are entirely local. Aggregating the effects of these so-called

the “commerce” nature of all trade secrets, aggregating their interstate effects to support the regulation of the occasional purely intrastate misappropriation does not run the risk of leaving nothing to the states—against which *Lopez* admonishes.

### B. Policy Considerations

That a federal law is constitutionally permissible does not necessarily mean, of course, that it is advisable. The policies favoring the enactment of a federal trade secrets law have been discussed in previous parts of this Article. This section focuses on whether there are drawbacks to the enactment of such a law from the perspective of the *policy* of federalism. It addresses the values generally claimed for federalism and concludes that federalizing trade secrets law would not unduly undermine them.

Despite the proliferation of federal power from the Depression and New Deal in the 1930s through the Civil Rights era of the 1960s and 1970s,<sup>332</sup> Americans have long venerated the policy of federalism, or the division of power between federal and state government.<sup>333</sup> Several principal themes are often invoked in favor of federalism.<sup>334</sup> One such theme is that it diffuses power between two distinct governments<sup>335</sup> and, in so doing, serves as a check on potential abuses of

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local misappropriations should have sufficient impact on interstate commerce to take it within the scope of the Commerce Clause.

<sup>332</sup> For a discussion of the evolution of federalism, see ALICE M. RIVLIN, *REVIVING THE AMERICAN DREAM: THE ECONOMY, THE STATES & THE FEDERAL GOVERNMENT* 85–100 (1992).

<sup>333</sup> See Mark C. Gordon, *Differing Paradigms, Similar Flaws: Constructing a New Approach to Federalism in Congress and the Court*, 14 YALE L. & POL’Y REV. 187, 190 (1996) (remarking that “[r]arely has a concept so difficult to define as federalism been so venerated”); Edward L. Rubin & Malcolm Feeley, *Federalism: Some Notes on a National Neurosis*, 41 UCLA L. REV. 903, 906 (1994) (observing that “[w]e Americans love federalism . . . It conjures up images of Fourth of July parades down Main Street, drugstore soda fountains, and family farms with tire swings in the front yard.”).

<sup>334</sup> It should be noted that some scholars are skeptical of the supposed virtues of federalism. See, e.g., Larry Kramer, *Understanding Federalism*, 47 VAND. L. REV. 1485, 1485 (1994) (observing that conflicting benefits and harms have been attributed to federalism); Rubin & Feeley, *supra* note 333, at 907–08 (terming American attachment to federalism a neurosis and asserting that federalism achieves none of the benefits attributed to it). Some argue that federalism is merely a tool Congress uses to rationalize conflicting policies and that it has not really served as a coherent policy guide. See Robert M. Ackerman, *Tort Law and Federalism: Whatever Happened to Devolution?*, 14 YALE L. & POL’Y REV. 429, 430–31 (1996) (noting the contradiction in Congress’s attempts to reform tort law, an area historically reserved to the states, and its efforts to remove welfare matters from federal authority and concluding that devolution is not a matter of principle but rather of “whose ox is being gored”); Gordon, *supra* note 333, at 192–94 (discussing the “slipperiness” of the federalism concept).

<sup>335</sup> See, e.g., SAMUEL H. BEER, *TO MAKE A NATION* 386–88 (1993) (emphasizing

government power from either front.<sup>336</sup> On this issue, Justice O'Connor has written with almost impassioned rhetoric that federalism "protects us from our own best intentions . . . so that we may resist the temptation to concentrate power in one location as an expedient solution to the crisis of the day."<sup>337</sup>

Although any exercise of national power probably presents some risk to liberty (in the federalism sense), the threat that is posed by a federal civil trade secrets law is modest. Such a law is unlikely to foster government tyranny or have the effect of amplifying government power at the expense of the individual, for it merely allocates rights by defining what is protectable and the scope of that protection. It does not entail government spending or taxation. Weighed against the myriad benefits of having a uniform law and policy on this matter, the moderate risks associated with some concentration of federal power seem worth taking.

Another benefit commonly attributed to federalism is that it "makes government more responsive by putting the states in competition for a mobile citizenry."<sup>338</sup> The idea is that under federalism, states will compete with each other for citizens and businesses through the enactment and enforcement of laws that produce a favorable environment.<sup>339</sup> It is expected that businesses and individuals will vote with their feet by moving to, or staying in, states with laws that they deem most attractive.<sup>340</sup> This, in turn, is said to result in greater efficiency for the country.

Assuming that federalism does produce such an effect, it still has little

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federalism's role in diffusing government power); Robert F. Nagel, *Federalism as a Fundamental Value: National League of Cities in Perspective*, 1981 SUP. CT. REV. 81, 87-107 (commenting on the division of power and political accountability that federalism affords); D. Bruce La Pierre, *Political Accountability in the National Political Process—The Alternative to Judicial Review of Federalism Issues*, 80 NW. U. L. REV. 577, 579-83 (1985) (same); Andrzej Rapaczynski, *From Sovereignty to Process: The Jurisprudence of Federalism After Garcia*, 1985 SUP. CT. REV. 341, 380-414 (discussing the importance of small governments for the protection of human rights).

<sup>336</sup> See *United States v. Lopez*, 514 U.S. 549, 552 (1995) (stating that federalism ensures protection of individual liberties and reduces the risk of "tyranny and abuse" from either the federal or state governments); *Gregory v. Ashcroft*, 501 U.S. 452, 456-60 (1991) (stating that a balance of power between the state and the federal government will protect both fronts).

<sup>337</sup> *New York v. United States*, 505 U.S. 144, 187 (1992).

<sup>338</sup> *Gregory*, 501 U.S. at 458.

<sup>339</sup> For discussion of federalism as generating competition among the states, see THOMAS R. DYE, *AMERICAN FEDERALISM: COMPETITION AMONG GOVERNMENTS* (1990); Richard A. Epstein, *Exit Rights Under Federalism*, 55 LAW & CONTEMP. PROBS. 149 (1992); Richard B. Stewart, *Federalism and Rights*, 18 GA. L. REV. 917 (1987); Charles M. Tiebout, *A Pure Theory of Local Expenditures*, 64 J. POL. ECON. 416 (1956).

<sup>340</sup> This government competition theory is based on the competitive market economic model in which government policies are determined strictly by market forces. Each individual or business is presumed to be fully informed, highly mobile, and willing to locate in the jurisdiction that offers the preferred economic package. For a detailed discussion of the economic case for federalism, see Tiebout, *supra* note 339.

relevance in the context of trade secrets law. In today's information-based industries, trade secret misappropriation may, and often does, occur in any state, not just in the state of the trade secret owner's place of business or incorporation. Moreover, choice of law analysis does not turn solely on the location of the trade secret owner or of the alleged misappropriator. Nor does it depend only on the place of the alleged misdeed. Thus, it is very difficult for a trade secret owner, or a potential misappropriator, to determine in advance which state's substantive law would control. Therefore, a state is unlikely to adopt strong protective measures for trade secrets in an effort to attract businesses desirous of keeping more of their information secret, since there is no presumption that such a law would apply if a business within its jurisdiction were to become a victim of trade secret misappropriation. Neither is a state likely to attempt to entice free riders or perhaps heavy users of information in the public domain by providing the narrowest trade secrets law (or no protection at all), since there is no guarantee that the law would apply simply because the user resides, engages in business, or conducts the supposed misdeed in that state. As a practical matter, it seems doubtful that trade secrets law would play much of a role in either attracting or repulsing businesses to or from a given state.

A third value that is often claimed for federalism is that it "increases opportunity for citizen involvement in democratic processes."<sup>341</sup> The underlying premise of this notion is that a smaller state government is more conducive to greater citizen participation than the large national government.<sup>342</sup> Therefore, allocating more power to the state should encourage citizens to take action aimed at influencing government policy. Again, assuming the merits of the claim, it has little application in the context of trade secrets law. Trade secret misappropriation frequently implicates the interests of two or more states, and neither the trade secret owner's nor the alleged misappropriator's place of business or incorporation is pivotal in choice of law analysis. Thus, there is little incentive for businesses located within that state to participate in the state political process in order to attain the trade secrets law of their choice, whether it be a broad one in the case of cutting-edge innovators or a narrow one in the case of businesses who tend to be "copiers" of existing information.

Of the benefits generally proclaimed for federalism,<sup>343</sup> perhaps the only one of

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<sup>341</sup> *Gregory*, 501 U.S. at 458. For discussion of the benefit of federalism in increasing citizen involvement, see Gerald E. Frug, *The City as a Legal Concept*, 93 HARV. L. REV. 1059, 1067-74 (1980); Lewis B. Kaden, *Politics, Money and State Sovereignty: The Judicial Role*, 79 COLUM. L. REV. 847, 853-55 (1979).

<sup>342</sup> Presumably, with fewer participants in the state, access to politicians would be easier, information about the government more readily available, and each vote would have more impact.

<sup>343</sup> The mantra of states' rights is sometimes also used to justify a policy against federal intervention, especially during the Civil Rights era when southern states resisted federal legislation

any significant relevance in the case of trade secrets is the idea, first expressed by Justice Brandeis, that federalism allows states to serve as “laboratories” of “experimentation.”<sup>344</sup> Providing states an opportunity to experiment with different solutions is considered positive because it has the potential of producing a number of alternatives from which the best solution may ultimately emerge.<sup>345</sup> It also helps avoid possibly the greatest threat posed by the enactment of a federal law: magnifying fifty-fold any error made.

Although this factor may militate somewhat against federalizing trade secrets law, it must be balanced against other interests favoring federal intervention. Trade secrets law have repercussions beyond the borders of a single state. An excessively narrow trade secrets law imposed by one state, for example, can have devastating ramifications for trade secret owners located throughout the country. Conversely, an overly broad trade secrets law may adversely affect the rights of second comers doing business in every state. Because of the impact of any trade secrets law on the nation as a whole, a federal solution seems most appropriate and desirable, for it would provide the interstate coordination that has been lacking but which appears necessary to properly regulate intellectual property.

## V. THE LAW THAT IS ENVISIONED

Finally, while it is beyond the scope of this Article to propose the actual form and content of a new federal trade secrets law, this Part will briefly describe the general scope of the law that is envisioned. The new federal legislation could basically resemble the Uniform Trade Secrets Act, as amended in 1985. Although many states have deviated from the UTSA, there is no common pattern to the changes which would suggest inherent flaws with the uniform act. A federal trade secrets law should, of course, comply with the substantive standards established in NAFTA and TRIPS. More importantly, it should preserve the balance between protection on the one hand and disclosure and competition on the other hand, which has been crafted into the existing federal intellectual property system. The UTSA

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aimed at ending racial discrimination. But it would seem that the proper focus should be on the rights of the ultimate beneficiaries of states’ rights—the people. *See New York v. United States*, 505 U.S. 144, 181–82 (1992) (stating that states could not waive Tenth Amendment structural protections because the people, not the states, are the ultimate beneficiaries of states’ rights).

<sup>344</sup> *See New State Ice Co. v. Liebmann*, 285 U.S. 262, 310–11 (1932) (Brandeis, J., dissenting); *see also Gregory*, 501 U.S. at 458 (suggesting that federalism “allows for more innovation and experimentation in government”). On state experimentation as a benefit of federalism, *see Kaden, supra* note 341, at 853–55.

<sup>345</sup> *See New State Ice Co.*, 285 U.S. at 311 (Brandeis, J., dissenting) (“It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.”).

seems to meet both objectives. First, it was the model on which the trade secret provisions in NAFTA and TRIPS were based, and therefore essentially meets the minimum standards established in those trade agreements. Second, the model act has carefully avoided infringing on the domains of the patent and copyright laws. For example, recognizing that society does not exact anything tangible from the owner of a trade secret in return for protection, such as disclosure of the secret for the public's future use, the UTSA does not grant exclusivity to the owner; it only protects the owner against another's taking of her information in a morally reprehensible manner (improper means), and only if the information or knowledge was in fact secret, which means not already in the public domain.

Another important issue that should be decided is whether or not a federal trade secrets law should be preemptive. When Congress acts pursuant to a granted power, it can exclusively occupy the field and preempt state authority because of the Supremacy Clause, if it so chooses.<sup>346</sup> Or, it can allow concurrent state regulation.<sup>347</sup> As to the concerns raised by NAFTA and TRIPS, Congress could easily enact a federal law that will provide the minimum protections demanded by the international agreements and still allow states to provide greater trade secret protection. In other words, preemption would not be necessary to ensure that the United States meets its international obligations. However, allowing concurrent state regulation would not resolve problems associated with the lack of uniformity and other issues raised in this Article. For this reason, a preemptive law along the lines of section 301 of the Copyright Act<sup>348</sup> is preferable.

## VI. CONCLUSION

The case for federalizing trade secrets law, the only intellectual property law not currently covered by federal regulation, is compelling. The nature of trade secrecy has changed dramatically over the years. From its roots as primarily a secondary source of intellectual property protection for less significant innovations, it has evolved into an important incentive for innovation in its own right. Given the new prominence of trade secrets law, the increasing connection between trade secrets and interstate and foreign commerce, and the enactment of NAFTA and TRIPS, the lack of uniformity in the law, perhaps once acceptable, is now problematic.

A federal trade secrets law will find constitutional support in Congress's commerce power and, probably, foreign affairs power. Although enacting such a law may be politically sensitive in this era of hyper-sensitivity to federalism, it

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<sup>346</sup> See U.S. CONST. art. VI, § 2. For an example of federal law specifically preempting state law, see The Copyright Act, 17 U.S.C. § 301 (1994 & Supp. III 1997).

<sup>347</sup> See The Sherman Act, 15 U.S.C. §§ 1-35 (1994).

<sup>348</sup> See 17 U.S.C. § 301.

should be noted that simply because an area of the law has long been in the states' domain does not mean that it must remain so forever. After all, the law of antitrust was also once a matter of state law. Yet, rising concerns about the effects of trade restraints on interstate commerce led Congress to pass the Sherman Act over a century ago. The circumstances existing today warrant federal regulation of trade secrets, just as the environment in 1890 justified federalizing antitrust laws at that time.